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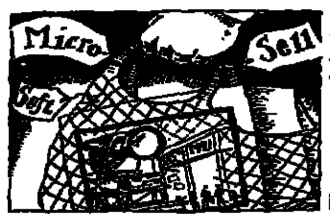
FINANCIAL TIMES

Start the week with...

The Emu drama
Shortcuts to Maastricht
Stephanie Flanders, Page 17



Media futures
Gates updates his network
Page 9

Today's survey
Germany
Separate section

World Business Newspaper http://www.FT.com MONDAY OCTOBER 21 1996

Gazprom share offering values company at $39bn

Gazprom, Russia largest company, said its initial international offering this week is expected to be priced at the upper end of the $14-$16 range announced two weeks ago. A value of $16 on each of the American depositary shares, which represent 10 ordinary shares, would give the gas monopoly an implied value of $39bn – more than doubling the current value of the Russian stock market. Page 19

Vienna to change trading rules: The Vienna Stock Exchange plans to change trading rules in the wake of the resignation of the head of securities trading at Investmentbank Austria, following allegations that his department manipulated equity prices. Page 18

Eurotunnel, the Anglo-French operator of the Channel tunnel rail link, is to cut more than 650 jobs to reduce costs by about £20m ($31.2m) and move towards profitability. Page 3

Chirac set for cool Israeli reception:

French president Jacques Chirac (Left) is welcomed by his Syrian counterpart, president Hafez al-Assad, on his arrival in Damascus. Mr Chirac arrives today in Israel, which has rejected his attempt to establish a leading role for France and Europe in Middle East peacemaking efforts. His tour will also include Palestinian-ruled areas, Jordan, Lebanon and Egypt. Page 4

Moldova, the former Soviet Republic situated between Ukraine and Romania, is planning to make a private placement for about $25m in the US, Europe and Asia – its first approach to the international capital markets since independence in 1991. Page 19

Rybkin named to replace Lebed: Former Russian parliamentary speaker Ivan Rybkin was appointed head of the security council in place of the sacked Alexander Lebed in a move welcomed by Senior Russian politicians and rebel Chechen leaders. Page 3

UK tax records open to foreign access: Computer experts in the US and Australia are to have access to data from the records of UK taxpayers under plans to provide a 24-hour technical back-up service for the new self-assessment tax system. Page 6

Clash over German labour relations: German employers have clashed over labour relations following criticism that the country's reputation abroad is suffering. Page 2

British Petroleum and Mobil of the US may use outside international accounting companies for many financial tasks in a bid to cut costs from their planned $5bn European refining and marketing joint venture. Page 19

Portugal against Emu delay: Portugal's Socialist prime minister, António Guterres, has rejected proposals to delay the entry of southern European Union countries into the single currency. Page 2

Bond issue for China dam project: China plans to issue Yn1bn ($120m) in bonds next month to finance construction of the Three Gorges dam, the first bond issue for the world's largest hydro-power project. Page 5

IMF set to agree Pakistan deal: The International Monetary Fund is to send a mission to Pakistan this week to complete details of a new stand-by credit agreement replacing the stalled $600m loan agreed last year. Page 4

Kidnap victim's body found: Police found the body of Jakub Fiszman, owner of an electronics and property empire who was abducted on October 1, in woodland outside Frankfurt. They arrested two men after Mr Fiszman's brother paid a DM4m ($2.5m) ransom.

European Monetary System: The Finnish markka took its place as third strongest currency in the EMS grid at the end of its first week in the ERM last week. It finished behind the Portuguese escudo and the Irish punt, the strongest currency in the grid. The punt was again helped by sterling's continued strength. Currencies, Page 25

EMS: Grid October 18, 1996

The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Albania	LEK275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	Ekr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)		Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500		Es265	UAE	Dh13.00

Likely new Hashimoto coalition could shift balance to right

LDP gains seats but not majority in Japanese vote

By William Dawkins, Michiyo Nakamoto and Gwen Robinson in Tokyo

Japan's ruling Liberal Democratic party yesterday made substantial gains in a general election but fell narrowly short of a majority, forcing it to form another coalition government over the next few weeks.

The conservative LDP won 239 seats in the 500-seat lower house of parliament, emerging as the largest party under a new electoral system that was greeted by a record low 59.6 per cent voter turnout.

Japanese business leaders welcomed the LDP's advance. "A stable conservative government with leadership is necessary," said Mr Jiro Nemoto, president of the Nikkeiren employers' federation.

On foreign policy, the LDP's resurgence points to stronger government support for the US-Japan security alliance, which has been under strain because of objections to US bases on the southern island of Okinawa. The result could also mean a stronger Japanese response to territorial disputes in the region. Mr Ryutaro Hashimoto, likely to be selected by parliament for a second term as prime minister, is expected to be more assertive in trade disputes with the US and European Union. He is a former minister for international trade and industry, and has lamented the country's failure to stand its ground in conflicts with Washington and Brussels.

The LDP's 239 seats were 28 more than it had in the previous 511-seat house, and well ahead of its nearest rival, the centre-right New Frontier party, which fell just short of its pre-election strength of 160 seats. The Social Democratic party, the second-largest partner in the outgoing three-party coalition, lost half of its seats to finish with 15.

Unsure Japan takes refuge in LDP .... Page 5
Currencies .... Page 23

Japan's powerful finance ministry was pleased with the success of the LDP, which has pledged to increase a value-added tax next April from 3 per cent to 5 per cent, an unpopular move long sought by the ministry as a first step to curbing what has in recent years become one of the largest government debts in the developed world.

Political analysts expect that the LDP's older generation on the right-wing of the party will have greater influence in the next government. The previous government was forced to accommodate the left-wing SDP, but yesterday's result increases the possibility the new government will be a centre-right coalition.

Mr John Neuffer, political analyst at Mitsui Marine Research, said that the expected shift in the government's character could mean slower economic deregulation and a cautious attitude to curbing the bureaucracy, both strong themes of all the leading parties' election campaigns.

A jubilant Mr Hashimoto said he hoped to continue the existing three-party coalition, but also hinted at possible co-operation with other parties, including the NFP and

Continued on Page 18

Applauding his party's gains: LDP leader Ryutaro Hashimoto is likely to be selected by parliament to serve as prime minister for a second term
Picture: Reuters

Deutsche Telekom shares may cost DM30

By Michael Lindemann in Bonn

Deutsche Telekom will today announce a price range of between DM25 and DM30 for the shares to be sold in Europe's largest ever initial public offering.

The range is at the high end of independent estimates and implies that the telecommunications utility is worth between DM65bn and DM78bn, making it one of Europe's most highly valued quoted companies.

The offer consists of 500m new shares, representing 20 per cent of the group's enlarged equity capital. Executives close to the offer say up to 70 per cent of the new shares in the issue will be placed on the German market, around 10 per cent more than expected following the success of a promotion campaign designed to attract retail investors in Germany.

Deutsche Telekom is expected to announce today that over 3m Germans have signed up to the company's Share Information Forum, membership of which gives them priority over other investors.

The final price will be set by the issue's global co-ordinators – Deutsche Bank, Dresdner Bank and Goldman Sachs, the US investment bank – just days before the shares are listed on stock exchanges around the world on November 18.

Between now and then they will try to assess demand from private and institutional investors as precisely as possible.

Deutsche Telekom is also expected to announce today that about 15 per cent of the issue will be placed in the US, the second most important market after Germany. A further 10 per cent is expected to be targeted at institutional investors in the UK.

The remaining shares will be placed by two other syndicates of banks who are handling the rest of the world and other

Continued on Page 18
Lex, Page 18

Israeli tax officials raid News Corp arm

Concealment of $150m of income suspected

By William Lewis in London and Avi Machlis in Jerusalem

Israeli tax officials yesterday raided the offices of a subsidiary of News Corporation, the media and entertainment group headed by Mr Rupert Murdoch, after a "secret investigation" into suspected tax evasion, involving the concealment of $150m in income.

Officials removed documents from the offices in Jerusalem and Haifa of News Datacom Research, a subsidiary of News Datacom, a UK-based company which is part of News Corporation.

They said it was suspected of "concealing income of a scope of approximately $150m" over seven years since 1989. They described the probe as "one of the largest and most complex investigations ever conducted by the income tax division". News Datacom is involved in the supply of so-called "smart cards" to subscribers of BSkyB, the satellite broadcaster in which News group holds a 40 per cent stake, and other TV companies.

The cards are crucial to the success of BSkyB and other parts of News group's TV interests because they are designed to ensure only paying subscribers receive transmissions.

Last week News Corporation said it was planning a $650m flotation of News Digital Systems, its UK-based television technology business which includes News Datacom. News Corporation said that it hoped to float News Digital Systems in the next two to three weeks but yesterday would not comment on whether the tax raid had affected its plans.

Ms Sarit Giladi-Dor, spokeswoman for the income and property tax division of Israel's finance ministry, said: "Over the last year we have been conducting a secret investigation into suspicion of tax evasion by News Datacom Research. Now the investigation has gone public."

Tax officials said the investigation was focusing on gathering documents, and a number of people were being called in for questioning.

In a statement yesterday, News Datacom said it was not guilty of tax evasion. "The company has filed all required tax returns and paid all applicable taxes. It has complied with all applicable Israeli laws and regulations." News Datacom also said some of its former employees were conducting a "continuing extortion campaign" against it.

Yesterday's raid follows a Financial Times investigation, published in May, into the tax structure operated at News Datacom. News group said then it had broken no laws and that the Israeli tax authorities had "indicated that they do not intend to pursue any claim against News Datacom". The level of tax paid by News Corporation, the group's parent company, and its subsidiaries, has long been a controversial issue. Internal company documents seen by the FT disclosed how the company organised its accounts and structure from 1988 to 1992 to minimise the tax payable to authorities in Israel and the UK.

Other documents seen by the FT also show how News Datacom executives had some of their remuneration paid as consultancy fees, but booked as directors' fees in the accounts.

Belgians unite to protest against judicial system

By Emma Tucker in Brussels

Belgians set aside cultural and linguistic differences yesterday as they converged on Brussels to demonstrate their disgust and disillusionment with their country's political and judicial systems.

According to organisers, 325,000 people marched to support the parents of four young girls who died recently at the hands of a paedophile ring.

The unprecedented display of public protest cut across the country's linguistic divisions, uniting French and Flemish speakers in their condemnation of the system.

The girls' parents are striving to uncover the truth about paedophile activities in Belgium and the way the investigation into the death of their daughters has been handled.

"People are demonstrating that they have lost almost any belief in the system," said one former Belgian minister. "There is a feeling that in the past too many cases did not lead anywhere because of reluctance by the authorities to shed light on what was really going on."

Yesterday Mr Jean-Luc Dehaene, the Belgian prime minister, who met the victims' parents before the start of the march, said the country's constitution would be revised to end political promotions within the justice system.

The marchers wore white and carried white flowers to symbolise the innocence and purity of children, parading solemnly and silently behind the parents of the victims and the parents of other missing children.

"Ashamed to be Belgian" read one marcher's banner.

The outpouring of anger was triggered by the dismissal last week of the popular judge, Mr Jean-Marc Connerotte, who was in charge of investigating the deaths of the four girls.

He was removed from the case following complaints that he had shown bias by attending a dinner organised by supporters of the victims family, where he accepted a plate of spaghetti and the gift of a pen.

The decision, by Belgium's highest court, has prompted accusations and rumours that high level officials are attempting to obstruct the course of justice.

Such is the mood of distrust that many Belgians believe that Mr Marc Dutroux and Mr Michel Nihoul, alleged abductors of the dead girls, enjoyed protection at a high-level because of links with officialdom.

Public anger at the decision also demonstrated the extent to which the authorities are out of touch with a public that has become obsessed with the tale of the two eight-year old and two teenage girls, allegedly abducted and – in the case of the eight year olds – left to starve, by Mr Dutroux and his accomplices.

CONTENTS

News
International News 2-5
UK News 6,7
Guide to the Week 34
This Week 8
Weather 18
Lex 18

Features
Leader Page 17
Letters 16
Observer 17
Management 10
Business Education 11
Sport/Architecture 13
Media Futures 9
Business Travel 14
Arts/TV and Radio 15
Crossword 34

Companies
Companies & Finance 20,21

Markets
Markets This Wk 22-24
Int Equities 22
Emerging Markets/Bonds 24
FT/S&P-A Wld Indices 22
Managed Funds 28-30
Currencies & Money 25
Share Information 26,27
World Stock Markets 31

Survey
Germany 96

NEWS: EUROPE

German industry leaders fall out

By Wolfgang Münchau in Frankfurt

Germany's industrial establishment has fallen out over labour relations following criticism that some industry groups are harming the country's reputation abroad.

The criticism by BAVC, the chemical employers' association, reflects concern that the hard-nosed assault on the welfare state could be backfiring. BAVC is especially worried that foreign investors and customers may be reassessing their view of Germany's companies and its economy.

In a 10-point declaration, BAVC expressed concern about the "distorted picture" of Germany created by the increasingly ill-tempered debate about the welfare state. It said that German companies had to accept their country's basic socio-economic system, adding: "The pursuit of radical economic concepts is unrealistic."

The declaration does not single out any specific organisations or individuals. However, chemical employers are understood to be troubled by the confrontational tactics of Gesamtmetall, the engineering employers' federation, in a row with trade unions over welfare entitlements.

Another possible target for criticism is Mr Hans-Olaf Henkel, president of BDI, the German Federation of Industry. As one of the most outspoken critics of the welfare state and the system of collective labour deals, Mr Henkel has polarised the debate more than any other industry representative.

BAVC's views also are also shared by a growing number of engineering companies. While many feel they have a legitimate case for welfare and labour reforms, they are beginning to question the tactics.

The reassessment is due in part to the humiliating defeat which German engineering employers suffered at the hands of IG Metall, the engineering union, in a recent dispute over sick pay.

The chemical industry is one of Germany's largest, and BAVC is the umbrella group of 13 regional federations, whose members include such well-known names as BASF, Hoechst, Bayer, Schering, Henkel and E Merck.

In its declaration, BAVC said: "Changes of social entitlements have to be achieved with as much social consensus as possible in a highly developed welfare state such as the Federal Republic. Only strong social partners, capable of reforming themselves, are in the position to bring about the necessary balance of interests." This runs counter to, for instance, BDI's radical anti-welfare and anti-collective bargaining position.

More confrontation over labour relations is expected today, when Gesamtmetall's leaders are to hold another crisis meeting with IG Metall to resolve the sick pay issue. The union had threatened nationwide strikes unless agreement was reached by Wednesday.

The dispute stems from a recent change in German law to cut statutory minimum sick pay entitlements from 100 per cent of wages to 80 per cent. Employers want the cuts carried over into a new labour agreement. This is being resisted by IG Metall and other unions.

Portugal aims for Emu front row

Prime minister Guterres is in no mood to delay joining EU single currency

By David White and Peter Wise in Lisbon

Delaying the entry of southern European Union countries into the single currency for two or three years after its launch has received a firm rebuff from Mr António Guterres, Portugal's Socialist prime minister.

There would be no benefit in making eligible countries wait to join later, he said in an interview with the FT. The task of keeping in line with European monetary union criteria would become harder and popular support for the euro would be undermined.

His comments came amid growing optimism in Lisbon about Portugal's ability to qualify in time for the planned euro launch in January, 1999 – contrary to earlier expectations.

Being outside the first group of countries would bring pressure on interest rates and hinder budget control, Mr Guterres maintained. "I cannot see any possible advantage in keeping countries in a kind of limbo. It will only make things more difficult. And it would of course have a very detrimental effect on public opinion."

He argued against a purely political decision based on "fancy considerations" about who should or should not join. Each candidate country should be considered on its own merits. He also warned that the EU would invite trouble if it put back the launch date to enable a larger number of members to meet the criteria.

Any delay would send "a very negative message" to public opinion and financial markets, he said. Portugal wanted the euro to be introduced on schedule in January 1999, with "the largest possible number of countries" participating.

Following a draft 1997 budget setting an overall deficit of 2.9 per cent of gross domestic product (below the single currency target) he said Lisbon had made "a clear and determined choice" to qualify for the first group, irrespective of whether Spain or Italy could also comply.

"We have our own strategy and our own goals, independent of what happens in other countries," he said. However, he made clear Portugal's hope that Spain, in particular, would also join the euro from the outset. Mr José María Aznar, his centre-right Spanish counterpart, appeared "extremely determined" to meet the entry terms, he said.

Portugal's effort to reach acceptable levels of public deficit and debt was backed by what Mr Guterres described as a "huge" privatisation programme, expected to raise $3bn in revenues this year and a similar amount in 1997.

If the country diverged from convergence targets next year, he said, "we will be ready to do anything to put the train back on track".

Mr Guterres also warned that Portugal would be "as tough as possible" in defending its economic interests in negotiations for admitting central European countries to the EU. Although he strongly supported enlargement in principle, he hoped the flow of funds to Portugal would be maintained.

The EU had to find a way of combining east-west solidarity with north-south solidarity, he said.

António Guterres: no benefit in waiting

OBITUARY: A.H.HERMANN

Financial Times writer who lived seven lives

Dr A.H.Hermann, who died last week at the age of 82, used to say that he had seven lives. He was best known for his sixth, which began when he joined the *Financial Times* staff in London in 1968 where he remained until his formal retirement in 1989. There had been some dramatic ups and downs in lives one to five.

Adolf Hanus Hermann was born in Tabor, a provincial town in South Bohemia, on June 1, 1914. His father managed a textile factory, but the business crashed in 1930. Recovery came when his father was made general representative of the Romanian Union of Syndicates for the Export of Animals and Fresh Meat. The job was to liaise with Prague on how the business was conducted. Adolf, though still studying, went to Bucharest to help. He believed more than most people in the likelihood of a second world war and in early 1939 the family moved to England. Just before going, he completed his law degree at Charles University in Prague and married his long-time girlfriend, Zdena, who went with him. That was the end of his first life.

In England, after a brief spell with other Czech refugees in Birkenhead which was to prove almost fatal for him later on, he settled well, despite having little English. He developed an export business which specialised in selling chamois leather to Canada and the US and Pilkington sheet glass to Ecuador. In 1942, he became an economic adviser to the Czech government in exile.

His work on possible Czech reforms led to his appointment as an administrative officer in the supply department of the United Nations Relief and Rehabilitation Administration, concentrating on Czechoslovakia and, briefly, Greece. That was the end of his second life, because at Christmas 1946 he decided to return to Prague.

He did so, he wrote later, against his better instincts and most reluctantly. The Czechoslovakia he found in 1947 was much more anti-Semitic than the country he remembered from the 1930s. Yet, for a while, he prospered. He looked after the export services of the Prague International Fair and was only gradually demoted after the Communist takeover of 1948. He worked at the internal trade ministry, then at the state monopoly timber company, Ligna, both of which he found grossly inefficient and was not popular for saying so.

His arrest, which he had long expected, came in July 1950. He was accused of being a British spy and of trying to leave the country. The sentence was 12 years' prison with hard labour, some of the evidence having been manufactured by Czechs he met in Birkenhead in 1939. Prison, including forced coal and uranium mining, made up Hermann's fourth life.

He was released and pardoned in September 1956 after Nikita Krushchev had signalled a new liberalism in the Soviet bloc, though harassment continued. He developed skills as a technical translator and in 1964 was made the Prague correspondent of the *New Scientist* on the strength of an article he had submitted on Czech science.

That was the start of his career in journalism. A stringership with the *Financial Times* soon followed and he began to write for the German business newspaper *Handelsblatt*. Just as he was getting on his feet again, however, there was new turmoil in Czechoslovakia.

Hermann was initially optimistic about the Prague Spring of 1968 and wanted to stay to report it. He was surprised to find a cable from the *FT* foreign desk saying: "Grossly overfilling on Dubcek. Why did you not cover the Czech budget?"

Gradually he convinced the desk that the events were important, yet he took some time to be persuaded that they were also serious for his own position. He and his family finally fled Czechoslovakia for Britain on the day of the Soviet invasion – 21 August, 1968.

That was the end of his fifth life. The sixth began when he joined the *FT*'s London staff. He wrote about east and west Europe and increasingly about European business law, founding and editing the paper's *European Law Letter*. He said that his sixth life ended in 1978 with a heart attack, though in fact he continued to work. His *History of the Czechs* was published by Allen Lane in 1975, and some of the above is drawn from a draft of his memoirs *My First Five Lives*.

He was a delightful, wonderfully educated man, and a pleasure to work with. He is survived by Zdena, his daughter Jana, his son Michael and three grandchildren.

Malcolm Rutherford

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EUROPEAN PRESS REVIEW

Marchers viewed from differing perspectives

FRANCE

By Andrew Jack

After months of hinting at the prospect of an autumn of discontent – if not salivating over one – France's newspapers eagerly covered last Thursday's public sector day of action when civil servants across the country took to the streets.

Just how many did so was open to question. The tabloid *Parisien* threw out a generous range for the demonstrations in the French capital, of between 40,000 and 100,000 people. *Le Monde* was more careful to cite the sources for its estimates, ranging from a police figure of 23,000 to 100,000 proffered by the militants of the Communist-linked CGT union.

Humanité, the daily Communist party newspaper, sticking loyally to the latter figure, dedicated half its front page and a further five inside pages to the day, which it called "an impressive warning shot" across the bows of Mr Alain Juppé, the prime minister.

According to Le Monde, strikers ironically were well represented in the economics and finance departments of government while one of the lower rates of participation came from workers in France Télécom, in spite of its imminent privatisation.

The leftwing daily *Libération* called Thursday a "bet that paid off", with one in three civil servants on strike. It argued that such support was hardly surprising in the face of President Jacques Chirac's broken election promises, the immunity of the ruling elites from punishment for their errors and the fact that successive belt-tightening calls over a decade had never brought the promised advantages.

However, for the rightwing daily *Le Figaro*, "less than one-third" went on strike in a "partial mobilisation". It said "Black Thursday did not happen" and it had rarely been easier to travel around Paris – including on public transport.

Perhaps more striking – in an echo of last year's social discontent – were two widely quoted opinion polls suggesting that, although so few workers in France are unionised, 54-64 per cent of the country supported Thursday's action. Yesterday's *Journal du Dimanche* stoked the fires further with a poll showing just 28 per cent of the French were satisfied with President Chirac and 21 per cent with Mr Juppé.

Yet there were also some big differences from last year's demonstrations. A number of papers quoted the government's official estimate that 35 per cent did not show up for work on Thursday, down sharply on the 57 per cent in an equivalent one-day strike in October last year.

As the Parisien pointed out, unlike last year there is no freeze on civil service salaries. "Defence of the public service" remained one of the marchers' demands, as well as the preservation of jobs – although only 6,000 posts are to go as part of the government's budgetary plans out of 2.1m civil servants and 4.8m public sector workers.

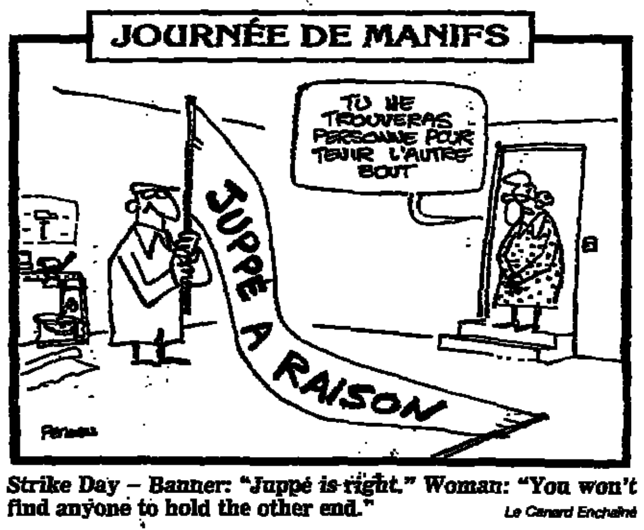
According to one teacher in an article in Le Monde, people are generally "fed-up" but there is no anger.

The personalities have also changed. In 1995, the centre of media attention was Mr Marc Blondel, the head of the Force Ouvrière union, who had supported the election of Mr Chirac and been seen as a force for moderation before converting into a firebrand during the strikes and controversially shaking hands with his traditional rival, Mr Louis Viannet of the CGT.

This year, Ms Nicole Notat, head of the moderate CFDT, which supported the government's programme of social security reforms and did not strike last November, gathered the attention. The CFDT has since increased its control over the leading social security organisations, at the expense of Force Ouvrière.

The fact that Mr Viannet refused to shake Ms Notat's hand on Thursday was widely reported. And there was strong criticism of the way she was booed, insulted and jostled by extremists.

The incident even made the front page of Saturday's Libération, which said it highlighted a growing tension between her "reformist" trade unionism and the more narrowly defined defence of members adopted by her rivals.



Strike Day – Banner: "Juppé is right." Woman: "You won't find anyone to hold the other end." *Le Canard Enchaîné*

EUROPEAN NEWS DIGEST

Greek public sector curbs

Greece's economy minister, Mr Yannos Papantoniou, has proposed legislation to cut the country's bloated public sector payroll, reduce spending by local government, and appoint international accounting firms and consultants a advisers on managing state-owned assets.

The law, to be approved by parliament next month, marks the launch of structural reforms aimed at enablin Greece to join in European monetary union by 2001. Next year's budget calls for cutting the deficit to 4.2 per cent o gross domestic product, mainly through spending curbs.

Officials said one civil servant would be hired for ever five who retired and outdated state services would be shut down. About 13 per cent of Greek workers are employed in the public sector, and numbers have increased as the Socialist government made patronage appointments to offset rising unemployment among young Greeks.

The law also aims at boosting Greece's undeveloped capital markets by letting pension funds and public sect enterprises invest freely on the Athens stock exchange. At present, state entities must seek approval for transactions from the finance ministry or the central bank. *Kerin Hope, Athe*

Forum to study mobile phone

The first World Telecommunications Forum opens in Geneva today, with its focus on the regulatory issues raised by a new generation of mobile phone systems which beam radio signals to and from a network of satellites in low orbit around the globe. The first satellite is expected to be launched in the next few months. They are expected to allow calls to be made from a hand-held phone anywhere on earth for $1.50-$3 a minute.

Billions of dollars have already been raised by competing consortiums, including Iridium, Globalstar an ICO, and services should start in 1998. Their operators ar concerned, however, that there is no worldwide regulatory framework, and a radio spectrum for their services has yet to be allocated in most countries. Developing countries which could benefit most from the new services are concerned about issues of management and control.

The Geneva meeting, attracting 1,400 delegates from governments, telecoms operators and the satellite communications industry, hopes to raise awareness of these issues. The operators also want tight approval for handsets to avoid individual approvals by each country. The forum, to end on Wednesday, will produce a report and recommendations but it cannot set or enforce policy. *Alan Cane, Gene*

Lukashenko sets poll date

President Alexander Lukashenko of Belarus yesterday se a date next month for a controversial referendum on a new constitution to formally cement his strong-arm rule. The vote seems likely to intensify the confrontation between himself and an increasingly united opposition, which at the weekend brought out several thousand Belarusans on to the streets of Minsk, the capital, in peaceful protest.

The draft document, to be voted on on November 24, automatically extends the president's term in office unti 2000 and essentially lets him hand-pick the constitutiona court and control a new parliament. Mr Lukashenko called a "national congress" at the weekend to approve his draft and referendum plans after repeatedly failing to obtain the required parliamentary support for both. *Matthew Kaminski, Vilniu*

Italian financier extradited

Mr Florio Fiorini, one of the most colourful Italian financiers of the 1980s, was extradited at the weekend from Switzerland to Italy after serving four years of a six-year term in a Swiss jail for being behind a SFr2.5bn ($2.1bn) bankruptcy.

He was taken to a Milan jail, pending interrogation about the Italian end of the companies linked to Sasea, the Swiss group he bankrupted.

This could lead to revelations about a number of important financial operations involving Italian companies during the 1980s. Mr Fiorini, a former finance director of Eni, the Italian state oil company, boasts of being the brains behind the illfated take-over of the MGM Hollywood studios by Giancarlo Parretti, financed by Crédit Lyonnais. *Robert Graham, Rom*

Kidnapped millionaire dead

A body found in woodland outside Frankfurt was yesterday identified as that of a kidnapped multi-millionaire, bringing a gruesome end to a three-week saga which has horrified Germany. Mr Jakub Fiszman, 40, owner of an electronics and property empire, was abducted outside his Frankfurt office on October 1.

Police imposed a news blackout after the kidnapping but appealed for help when abductors reneged on a promise to free Mr Fiszman, after his brother had paid a DM4m ($2.5m) ransom. Police arrested Mr Rainer Koerppen, 48, and his 26-year-old son Sven within a few days after discovering almost all of the ransom in the garden of a house owned by Rainer's parents. Several wealthy Germans, including Mr Fiszman's nephew in 1991, have been abducted in recent years, but they have usually been released unharmed. *Reuter, Frankfur*

Landsbergis' return on cards

Lithuanians yesterday voted in their second parliamentary ballot since gaining independence from the Soviet Union. Opinion polls show that the conservative Homeland Union, led by Mr Vytautas Landsbergis, a hero of the independence struggle and former chairman of the Supreme Soviet, may unseat the Lithuanian Democratic Labour party, emerging from among 24 parties with the most seats in the 141-seat parliament.

The Democratic Labour party, made up of ex-Communists, is doing poorly in polls even though tough economic reforms of the past four years are beginning to bear fruit.

Other centre-right parties, which could possibly form a coalition government with the Homeland Union, are expected to do well too. *Matthew Kaminsk*

NEWS: EUROPE

Pull down barriers, say companies

EU business calls for push to complete the single market

By Emma Tucker in Brussels

European business is demanding a final push to complete construction of the single market, including more radical energy liberalisation, harmonisation of VAT and action to break open the market for public procurement.

Two surveys covering more than 13,500 companies across the 15 member states and conducted as part of this year's exercise by the Commission to assess the economic impact of the single market, show widespread satisfaction among business about the benefits the EU's barrier-free bloc has yielded.

But the studies also uncover glaring holes where the process of removing obstacles to trade between the 15 member states is far from complete, and business wants further action by the Commission.

Problem areas include:

● The movement of machinery and building materials because of slow progress on the setting of common technical standards, such as those concerning machine safety.

● A lack of convergence in environmental standards. The most frequently cited problem was the leeway allowed member states to set standards above the EU minima laid down in the packaging waste directive. Differences in recycling policies also create difficulties for many sectors.

● Failure by member states to recognise certification and test results, other than their own, in certain sectors.

● Advertising and marketing restrictions. Different approaches in the member states towards what constitutes misleading information and what are permissible promotional strategies are causing difficulties.

● Public procurement. Single market legislation aimed at opening up the market for public tenders has been implemented poorly, or not at all, by many member states. The result, according to the surveys, is that few enterprises have benefited from the supposed opening up of the public procurement market.

● VAT. Current arrangements for collection are unpopular with many businesses. The Union is supposed to be shifting to a "definitive" system of VAT in which tax is levied in the country where goods and services originate. For the time being, it continues mostly to be levied in the country where goods are consumed, a system which involves companies in significant and unpopular amounts of paperwork. Disagreement between member states over a definitive system means the Commission is unlikely to come forward with proposals in the near future.

● Energy liberalisation. Many industrial sectors complained about the lack of progress on energy liberalisation, in spite of a recent agreement to open the market partially. Several said liberalisation would significantly reduce their costs.

The surveys form part of this year's review of the impact of the single market. Businesses, consumers and other interested parties were invited to contribute to the review, carried out four years after EU barriers to goods, services and capital were in theory removed.

Mr Mario Monti, the single market commissioner, is hoping to use the results to fine-tune the existing framework of single market rules, although he has already stressed that the Commission does not intend to propose a big new programme of legislation.

Of the companies questioned for one of the two surveys, 60 per cent said the elimination of customs formalities and border delays had had a positive effect. Only two in 10 industrial enterprises felt the single market had not achieved its principal objective of eliminating barriers to intra-EU trade. Almost half of the companies surveyed recognised they faced stiffer competition as a result of the single market.

Eurotunnel to cut jobs in attack on costs

By Andrew Jack in Paris and Motoko Rich in London

Eurotunnel, the Anglo-French operator of the Channel tunnel rail link, is to announce several hundred job cuts tomorrow as part of efforts to reduce costs and move towards profitability.

In preliminary discussions late last week with unions, it proposed a figure of 657 job losses out of a total of 3,500 employees. Most of those affected are likely to be part-time contract staff and consultants in white-collar jobs, and will be equally split between the UK and French operations. Cost savings are thought to be in the region of £20m ($30m).

Mr George Chazot, operational managing director, will present details of the cuts to the staff works council in Calais tomorrow, as part of the legal consultations required under French law. The staff will be shed over the next 14 months.

Unions and local political leaders reacted angrily. Mr Jean-Jacques Barthe, the Communist mayor of Calais, called the figures "dramatic and catastrophic". Mr Henri Ravisse, head of the local chamber of commerce, said he was "extremely concerned" in view of already high levels of unemployment.

The job reductions are part of a programme of cost-cutting announced earlier this year by Eurotunnel, which is also moving the majority of its remaining staff out of its London and Paris headquarters to the tunnel sites in Calais and Folkestone.

The company is under intense pressure to lower its costs and is in negotiations on restructuring its £9.1bn bank debt. Its bankers and shareholders are currently considering details of a debt plan which would dilute the latters' stake in debt-for-equity swaps. It will be voted on at an extraordinary general meeting probably next April.

Mr Patrick Ponsolle, joint chairman of Eurotunnel, recently said he believed the group could be profitable and in a position to pay dividends to shareholders by the year 2004.

Politicians hope Rybkin will ease tensions within Kremlin and cement peace deal in Chechnya

Lebed successor set to cool Moscow fever

Ivan Rybkin: determined to strengthen Chechen peace 'without fuss and noise'

By John Thornhill in Moscow

Senior Russian politicians and rebel Chechen leaders yesterday welcomed the appointment of Mr Ivan Rybkin, the conciliatory former parliamentary speaker, as secretary of the security council in place of the sacked Mr Alexander Lebed.

They said the appointment would help calm Moscow's feverish political climate, reduce tensions within the Kremlin, and cement the peace deal in Chechnya.

But Mr Lebed, dismissed last week after four months in office, denounced Mr Rybkin as an incompetent *apparatchik* who would turn the security council into "a quiet bureaucratic office that no-one will know about".

"He will behave like he did in his time at the *Duma* [the lower house of parliament] when he would calmly continue speaking from his presiding chair while deputies were fighting in the hall."

Also appointed presidential envoy to Chechnya, Mr Rybkin said he was determined to strengthen the fragile peace process in the troubled southern republic. However, he would do so "without fuss and noise" – an apparent sideswipe at his self-publicist predecessor.

"I am a convinced supporter of the peace agreements in Chechnya and will do everything to get out of the crisis," Mr Rybkin said.

Rebel Chechen leaders, who feared the ructions in the Kremlin might jeopardise the peace agreement signed with Mr Lebed, cautiously approved Mr Rybkin's appointment.

"We are ready for for co-operation and close working contacts with Ivan Rybkin and any Russian official sincerely interested in the re-establishment of stable peace in the region," said Mr Akhmed Zakayev, a Chechen security official.

An unprepossessing agricultural specialist who turned 50 yesterday, Mr Rybkin prefers consensus to confrontation, and is likely to adopt a very different approach to running the influential security council than his predecessor.

Initially on the left of post-Soviet Russian politics and a leading member of the Agrarian party, Mr Rybkin was gradually sucked into the Kremlin establishment after being appointed speaker of the lower house of parliament in 1994.

At Mr Yeltsin's request, Mr Rybkin tried to form a responsible opposition party to contest December's parliamentary elections to mirror the pro-government Our Home is Russia bloc founded by Mr Victor Chernomyrdin, the prime minister.

But Mr Rybkin rapidly lost the support of leading trade unionists and social democrats running a disastrous campaign and losing his post as speaker. His bizarre television advertisements, featuring two talking cows, were politically obscure and widely ridiculed.

Mr Sergei Yushenkov, a liberal MP, said the president had made a good choice in appointing Mr Rybkin.

"He is not a confrontational figure and will extinguish all the conflicts that have arisen in society," he said.

Rutskoi aims to get back in political swim

By John Thornhill

Mr Alexander Rutskoi, Russia's mustachioed former vice-president, who led an armed uprising against President Boris Yeltsin three years ago, yesterday attempted to return to the political mainstream by contesting the elections for governor of the Kursk region.

Mr Rutskoi, who was disgraced and imprisoned after the failed coup, has been one of Mr Yeltsin's fiercest critics and has run on a strongly nationalist ticket. His chances were considerably improved when the Communist party candidate stood down in his favour just before the poll.

A victory for Mr Rutskoi could encourage Mr Alexander Lebed in his fight to rehabilitate himself in a similar way.

Mr Lebed, who was sacked last week as national security chief, is contemplating standing as a candidate in the forthcoming elections for governor in Tula, where he was formerly a paratroop commander and parliamentary deputy.

Regional governors wield considerable power in post-Soviet politics and command a seat in the upper house of parliament giving them a chance to win national media exposure. Mr Lebed is desperate to remain in the political limelight to stake his claim to succeed Mr Yeltsin.

Mr Rutskoi is one of four candidates in Kursk, the site of an epic tank battle in the second world war and home to a strong nationalist movement. His main opponent is Mr Vasily Shuteyev, the current governor.

Gubernatorial elections will have been held in 52 regions throughout Russia by the end of the year promising to change the face of local politics. A Communist party candidate has already won the important Leningrad region although pro-Yeltsin candidates have prevailed elsewhere.

Elections were also held yesterday in the oil-rich island of Sakhalin in the far east and in Pskov on the border with Estonia.

NEWS: INTERNATIONAL

Qatar settles billion-dollar suit

By John Mason in London and Robin Allen in Dubai

The dispute between the Qatar government and the state's exiled former ruler, Sheikh Khalifa bin Hamad al-Thani, over the ownership of several billion dollars of missing oil revenues has been settled, the ministry of justice said yesterday.

Sheikh Khalifa is to return substantial sums which he had moved out of the country and put in western European and US banks before he was overthrown last year by his son, Sheikh Hamad bin Khalifa.

Sheikh Hamad had launched a series of legal actions in the UK, US, France and other countries. The government claimed the former emir had misappropriated the money. Sheikh Khalifa denied the charge, claiming that as emir he was entitled to do what he wished with the state's money.

The prospect of a highly publicised court action in London's High Court in January is believed to have made other Gulf rulers, notably the Saudis, concerned about the private finances of one of their number being discussed publicly.

The Qatari minister of justice, Dr Najeeb al-Naumi, said the settlement had been reached "through agreement and understanding, as is customary for the Qatari people". The terms remain confidential but some sources indicate the sum to be returned could be about $6bn. The deal will enable the government to resume financing of a number of development projects and should also significantly ease Qatar's cash-flow and improve its credit-rating, according to Gulf commercial bankers yesterday.

A recent International Monetary Fund report is reported to have warned of an increase in debt-service obligations and a current account deficit. Gulf bankers said the report warned of "the debt burden becoming unmanageable" and "putting serious pressure on the economy and jeopardising gas-export projects".

As recently as October 13, the US-based rating agency Thompson Bank-Watch had given Qatar a low investment grade rating of "Triple B Minus", despite its prodigious reserves of gas and oil. Mr William Hassiepen of Thompson Bank-Watch was quoted as saying Qatar's debt-levels were "piling up and becoming greater as a percentage of GDP. It is costly to retrieve gas."

However Moody's Investors Service said on October 4 it was considering upgrading the long-term deposit ratings of three Qatari banks, including the state Qatar National Bank, which currently stand at Ba2.

Commercial bankers have also been encouraged by progress this year by foreign oil companies. Atlantic Richfield of the US was due to start producing at a rate of 35,000 b/d at its Al-Rayyah field in September.

Indian rate cuts aim to revive growth

By Tony Tassell in Bombay

India's central bank has prescribed an unexpectedly extensive package of measures led by interest rate cuts to revive economic growth. The Reserve Bank of India said the measures, announced over the weekend in its six-monthly statement on credit policy, should see Indian banks cut their prime lending rates immediately by one percentage point.

The measures, far beyond market expectations, should also free more money for lending, bring down the cost of funds for banks and sharply reduce the maximum interest rate charged to companies.

"The [central] bank has done as much as it possibly can to give the economy a nudge," said Mr Divesh Kumar, of brokers W.I.Carr. "It is now up to the government to take things further."

Indeed, the RBI moved to allay deepening concerns over the slowdown in the economy. Mr C. Rangarajan, RBI governor, said that after two years of strong economic growth there had been some deceleration in the current fiscal year to March, particularly in industrial production.

However, the growth rate in agricultural production was expected to be 3 to 4 per cent and this would have a favourable impact on industrial production. Overall, he expected economic growth in the current fiscal year to March would be around the revised estimate of 6.2 per cent for GDP growth in 1995-96.

Mr Rangarajan added that the "slackness" in industrial growth was mainly due to declines in growth rates in the mining and electricity sectors. These sectors had recorded "very low" growth rates of 3.6 per cent and 2.2 per cent respectively in the current fiscal year.

He said manufacturing growth was currently about 10.4 per cent and recent good monsoon rains should improve output from hydro-electric power schemes in

Rangarajan: deceleration

the second half of the year. For the year as a whole, industrial production was expected to grow by about 9 to 10 per cent, compared with an average of 12 per cent in 1995-96.

Mr Rangarajan said the new credit measures would expand lendable resources of banks but not fuel excessive monetary expansion and inflation. Inflation is expected to remain at 6-7 per cent for the rest of the year.

Among the main changes, the cash reserve ratio for Indian banks will be cut by 2 points to 10 per cent in two phases over three months. This ratio is the proportion of bank reserves which must be held on deposit with the RBI. Each 1-point cut is expected to free Rs42.75bn ($1.2bn) for lending.

IMF and Pakistan to settle credit deal details

By Peter Montagnon and Farhan Bokhari in Islamabad

The International Monetary Fund is to send a mission to Pakistan at the end of this week to flesh out details of a new stand-by credit agreement. This would replace the stalled $600m loan agreed last year and staunch the haemorrhage of foreign exchange reserves.

The move was announced after talks in Washington between the IMF and a Pakistani delegation led by Mr Mohammad Yaqub, the central bank governor. It is widely seen as an indication that negotiations are on track for final agreement on a tough package of measures designed to hold the budget deficit to 4 per cent of gross domestic product.

The government has still not revealed details of the measures, but they are expected to include cuts in spending, a further depreciation of the rupee, curbs on credit growth, and new taxes on agriculture.

Some of the measures are likely to prove unpopular, especially the imposition of tax on the hitherto exempt farm sector, but they have aroused little protest from the opposition.

A consensus appears to be growing on the need for an IMF deal after foreign exchange reserves fell to $830m, or just five weeks of imports, at the start of this month.

Bankers believe they have dropped further since to below $800m.

Government officials say privately that the armed forces have indicated a willingness to accept cuts in defence expenditure, currently 26 per cent of the budget, as long as other sectors share the burden.

There have also been some indications that the IMF may have softened some of its earlier requirements. Mr V.A. Jafarey, economic adviser to Ms Benazir Bhutto, the prime minister, said at the weekend that, to ease the government's revenue position, it was no longer requiring the immediate abolition of the 10 per cent import surcharge.

Failure to abolish this surcharge in the June budget was one of the reasons why the IMF blocked drawings on the stand-by loan originally agreed last December.

Condo commandos turn out for Clinton

Florida could go Democratic, thanks to Dade's army, writes Patti Waldmeir

This is the kind of place where you park your yacht at the front door: the condominium metropolis of Aventura, Florida, a city of "seniors" (as the elderly are known in America), and a strong base for the re-election campaign of President Bill Clinton.

Mr Dave Samson is a foot-soldier in the campaign to capture Florida's 25 electoral votes – the fourth highest of any state, and nearly a tenth of the total needed to win the election – for Mr Clinton. No Democrat has carried Florida since Mr Jimmy Carter in 1976. State Republican officials admit that no Republican could win the presidency without it.

Mr Samson, who turns 80 just after election day, is part of the reason why Mr Clinton could have a shot at denying Florida – the most solidly Republican of all the big states – to his challenger, Mr Bob Dole, on November 5. He is part of Florida's "senior electorate": the state's largest single bloc of voters (a third of the total), among its most enthusiastic (voters over 65 vote at twice the rate of younger voters), and heavily Democratic (60 per cent of "seniors" are Democrats).

But Mr Samson is not just another influential senior voter: he is, by his own description, a "condo commando", one of a group of elderly guerrillas who run a Democratic insurgency campaign from the condominiums of Northeast Dade county, near Miami.

Mr Samson loves Florida – "I've lived here for 25 years, and I've worn a sweater twice" – and he loves Bill and Hillary Clinton. He says his political action group, Concerned Citizens of Northeast Dade, is "110 per cent for Clinton". He and other condominium leaders intend to deliver the elderly vote for the Democrats.

Concerned Citizens of Northeast Dade distributes "palm cards", thin yellow sheets printed with the names of recommended candidates for the presidency down to the fire brigade. Florida voters are allowed to take them into the voting booth: fading memories need not retain a long list of names, so long as fading eyesight can decipher the figures on yellow paper.

Mr Ken Cohen is another member of the Granddad's Army of northeast Dade, and another staunch Democrat. He explains, in the unmistakeable accent of Jewish New York, why he supports Mr Clinton: because of the economy, which is strong, and because Mr Dole is too old (though at a sprightly 73, he is younger than many commandos).

And, Mrs Cohen chips in, because of Medicare, state health insurance for the elderly. Republican plans to restrain the growth in Medicare spending resonate here, as everywhere in Florida.

Democrats have made Medicare the focus of their campaign to win the sunshine state's senior vote. Republican officials complain that Democratic television advertisements have misrepresented their plan to slow Medicare spending by only slightly more than their rivals. They point to a recent advert showing a patient on a heart monitor, which is unplugged while the voice-over draws a parallel with Republican plans for health care.

"Suggesting to our seniors that the Republican party wants to kill them! That's outrageous," says Mr Marco Rubio, co-ordinator of the Dade County Dole campaign. His counterpart, Mr Joe Geller, the Dade County Democrat chairman, admits the use of scare tactics, but counters: "We're scaring people about something they ought to be scared about".

Mr Geller believes that Florida's seniors – mostly from the Jewish or Italian communities of the north-eastern states and traditionally liberal Democrats – will vote for Mr Clinton. But he also sees his candidate cutting into the Republican voter base, especially among Cuban-Americans. They are immensely influential in state politics, and traditionally Republican.

Mr Clinton's signature of the Helms-Burton bill, imposing tough economic sanctions against Cuba, has given him 41 per cent of the Cuban-American vote, according to one recent poll. Mr Geller says being tough on Cuba has allowed the president to "neutralise" an issue which long favoured the Republicans, giving him a chance to tout his position on issues such as immigration, where Republicans are expected to lose votes because of a harsh anti-immigrant stance.

Still, even with all these advantages, the latest opinion poll shows the president only three points ahead of Mr Dole, statistically a dead heat. But Clinton officials say their candidate is determined to win Florida this time – and to spend what it takes to do so. They say he regrets backing away from the state in 1992, when he still lost it by only 100,000 votes.

This time, with the condo commandos fighting by his side, he might just get his revolution.

INTERNATIONAL NEWS DIGEST

Chirac snubbed over Mideast

Israel yesterday rejected an attempt by French President Jacques Chirac to establish a big role for France and Europe in Middle East peacemaking efforts.

"Every [outside] force that will enter into the negotiations puts obstacles into the negotiations," said Mr David Levy, Israel's foreign minister. Mr Levy's remarks came in response to Mr Chirac's statement, in Syria at the weekend, calling for greater involvement of Europe in general and France in particular in regional peace talks.

France was not invited to participate in the US-sponsored summit in Washington this month between Israeli, Palestinian and Jordanian leaders, aimed at calming Israeli-Palestinian violence and restarting the peace process. It also failed to establish itself as a mediator in Israeli-Palestinian talks which resumed following the summit.

Mr Chirac arrives in Israel today for the second leg of his Middle East trip. Later this week he is to speak in the Palestinian legislative council. *Avi Machlis, Jerusalem*

Shell awards Nigeria contract

Shell, the Anglo-Dutch oil group, has awarded a £320m ($500m) contract to reduce the controversial flaring of natural gas in its oilfields in the Niger delta of Nigeria.

The contract to build a new gas processing plant at Soku in Rivers state has been won by a consortium of JGC of Japan and Saipem of Italy. When completed the plant will send an average of 450m standard cubic feet of gas a day to Nigeria's new liquefied natural gas facility, which is under construction on Bonny Island.

Shell and its joint venture partners say they are committed to ending all "unnecessary gas flaring... as soon as possible".

The practice of flaring large amounts of gas in the delta has been criticised by international environmental campaigners and local residents. *Robert Corzine, London*

By-election boosts Howard

Australia's federal coalition government won a convincing victory in a by-election in the western Sydney seat of Lindsay at the weekend, its first ballot-box test since its big win in the general election on March 2.

The result comes shortly after the new government's first budget, which outlined big cost-cutting moves. It also followed a particularly traumatic week for the coalition: two junior members of the government were forced to resign over their share interests and a number of senior ministers were criticised for having investments which could conflict with their portfolio responsibilities.

Mr John Howard, prime minister (above), said yesterday the result confirmed the nation's desire for a new agenda. "One of the messages coming out of [it] loudly and clearly was: 'We didn't make a mistake, we wanted change'," he said. *Nikki Tait, Sydney*

Fighting near Kabul

The ousted Afghan military commander Gen Ahmad Shah Massoud moved closer to Kabul yesterday, firing a volley of rockets into its airport. But his forces later suffered a reverse in a counter-attack by the Taliban militia, witnesses said.

They said the Islamic militia who control the capital hit back in the late afternoon, driving Gen Massoud's largely ethnic Tajik forces back several kilometres.

Building on a series of successes which brought them within rocket range, Gen Massoud's men had driven to within 18km of the city. But witnesses said they had been driven out of Hussein Kot, 20km away, by the Taliban counter-attack. *Reuter, Kabul*

Lili hits Cuban economy

Hurricane Lili, which hit western and central Cuba on Thursday and Friday, caused no deaths but dealt a heavy blow to the island's economy by wrecking plantations of both staple food crops and export crops such as sugar cane and citrus.

Damage to agriculture was heavy. Whole plantations of bananas were scythed down and other staple food crops, such as rice, were also badly hit. The hurricane also cut through the main citrus-growing regions, dumping an estimated 135,000 tonnes of grapefruit and oranges to the ground. *Pascal Fletcher, Havana*

William Dawkins assesses a poll that leaves leading party short of majority and opposition in tatters

Unsure Japan takes refuge in LDP

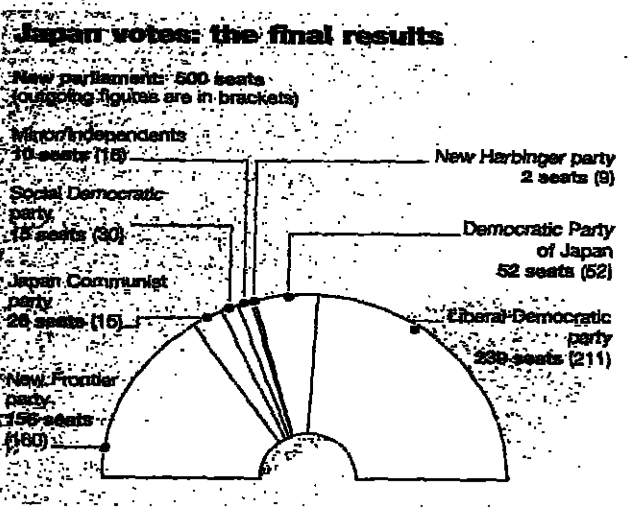
Yesterday's Japanese general election puts the conservative Liberal Democratic party back in the driving seat after three years of muddled coalition governments, but leaves it in charge of a vehicle loaded with disaffected passengers.

The election, the first since the LDP lost its near 40-year monopoly of power in 1993, allowed it to make significant gains, but still left the party a fraction short of a majority. As a result, it will be obliged to form another coalition, but probably with less prickly partners than last time.

After a lively experiment with an ineffective and feuding multi-party system, Japan yesterday moved towards a three-party regime grouped around the political centre: the LDP, plus the election runners-up, the tax-cutting New Frontier party, and a new group, the Democratic party, pledged to curb the power of the bureaucracy and make government more sensitive to the aspirations of the electorate. A simple system of two parties each keeping the other on its toes, as espoused by the first post-LDP political leaders, is still a long way off.

Despite its lack of a majority, however, the LDP came so far ahead of the nearest contender, with at least 50 per cent more votes than the centre-right New Frontier party, that Mr Ryutaro Hashimoto is nearly assured of re-election as prime minister when parliament meets to choose the next Japanese leader in the next week or so.

Japan votes: the final results



The available choices for coalition partners point to a more coherent alliance than the last three-party team, a heterogeneous mix of conservative, centre-left and socialist. The opposition did so poorly yesterday that Mr Hashimoto will be able to pick partners at leisure from a number of walking wounded. These include independents, defectors from the NFP, which lost seats badly, and marginalised parties like the New Harbinger party, once a beacon of reform.

The latter did so atrociously that its leader dissolved into tears and offered to resign. So no partner in any likely coalition line-up will be strong enough to bring down the government.

That marks a big change from the previous disparate coalition, in which the LDP lived in fear of a walk-out by its second largest partner and traditional foe, the Social Democratic party.

The SDP yesterday lost more than half its seats, in a widely expected humiliation. As expected, many of its supporters were disgusted by the SDP's cynical two-year cohabitation with the conservatives and yesterday voted for the communists, who ended up with more seats than the socialists for the first time in Japanese parliamentary history.

The communists confirmed yesterday that they were not coalition candidates, preferring to maintain a policy of honourable isolation.

A chastened Ms Takako Doi, the SDP's chairman, yesterday said her party would take no cabinet seats in the new government, but would offer some form of ill-defined co-operation from outside the cabinet. The party has one other card left: a majority in the upper house, the Japanese equivalent of the House of Lords, but it no longer has a strong hand.

So far so good for Mr Hashimoto. The disquieting news for him is that yesterday's turnout was so low. Mr Koichi Kato, LDP secretary general, disarmingly admitted last night that the LDP's success was largely owed to voters' feelings of confusion and insecurity after the recent period of chaotic coalitions. Mr Hashimoto himself admitted that the low turnout was a "serious" sign of lack of interest.

"Indisputably, the LDP is in a stronger position to call the shots, but on the other hand it does not have a very convincing mandate," said *Mr John Neuffer*, political analyst at Mitsui Marine Research Institute.

The most obvious lesson for the next stage of Japan's Byzantine political realignment, as the SDP's Ms Doi pointed out last night, was that opposition parties cannot win unless they differentiate themselves from the LDP, not just in style, but in policy, more clearly than before. "Our policies just were not clear. We must start again from scratch," she said.

Mr Yukio Hatoyama, leader of the new Democratic party, formed only last month, added: "We have to pursue our own path." For that reason, he said it would be wisest for the democrats to stay out of the incoming coalition.

The other lesson is that a political opposition as fragmented as Japan's has little hope of giving the LDP a run for its money. The most interesting coalitions over the next year or so will be not in government, but on the other side.

Kin Narita, one of Japan's celebrity 104-year-old twins, casts her vote in Nagoya yesterday. Kin and and her sister Gin have lived through all but one of the country's 41 parliamentary elections. Asked how she voted in this poll, she replied:"I forget." Reuter

Result fails to cheer party leaders or electorate

The sake barrels were ready and the supporters waited expectantly for the final count, but there were few cheers or even smiles at any of the leading party headquarters as the election results trickled in last night.

At the Liberal Democratic party's HQ there were a few big handshakes and slaps on the back. However, the red paper flowers of victory above more than 200 candidates' names provided the most telling sign that the conservative LDP had once again emerged as the single largest party.

"We won. We did not win a majority, but we won," was the meek claim to victory managed by Mr Koichi Kato, the secretary general. The LDP had been hoping to win on the strength of its established organisations in the provinces, and a new single-seat system which was expected to favour large parties.

But even LDP leaders were *forced to admit that they were* helped mostly by the disillusion with the fractured opposition and a desire for political stability.

The search for stability even helped disgraced politicians. Mr Kishiro Nakamura, who is in the middle of a trial for allegedly receiving bribes, and Mr Takao Fujinami, who was indicted but later cleared of receiving bribes, both returned to their careers as LDP MPs.

Disappointment was palpable at the New Frontier party's headquarters. Its leader, Mr Ichiro Ozawa, did not appear in front of supporters until well past midnight, when it had become clear that the NFP had performed much worse than expected.

The first national elections since the introduction of an electoral system that was supposed to reform Japanese politics and help those with strong policy platforms not only failed to do so. It also left the electorate disillusioned and few party leaders satisfied. Voter turnout was the lowest ever, reflecting the apathy that may have helped the LDP by robbing the opposition of a strong protest vote.

Gaudy sound trucks, catchy slogans and "let's vote" campaigns left more than 40 per cent of 98m eligible Japanese voters unwilling to go to the polls yesterday. Turnout was a dismal 59.8 per cent, well below the record low of 67.2 per cent in 1993.

Street interviews revealed a mixture of apathy and confusion over the new combined system of *proportional representation and* single-seat constituencies.

At one polling station in a school hall in central Tokyo, several would-be voters turned away at the sight of the straggling queue of 25 or so people. "It's bad enough if I don't really understand the system and don't really know who I want to vote for, but I'm not going to waste my time as well," grumbled one elderly woman.

Apathy also defeated an eclectic mix of celebrity candidates, most of them political debutants fielded by parties hoping to swing uncommitted voters.

Among them was Ms Naoko Sato, a former professional tennis player, and Mrs Sachiyo Nomura, a *television chat show star and* wife of the manager of one of Japan's best known baseball teams, the Yakult Swallows.

The lack of interest may have been the deciding factor behind the unexpectedly poor performance of the new Democratic party, which had aimed to collect the protest liberal vote.

The Social Democratic party and the New Harbinger party, were licking their wounds after being battered in a contest that punished both parties for giving up their leftist credentials and allying with the conservative LDP in the previous government.

Only the Communists could congratulate themselves wholeheartedly. "Politics in Japan have always ignored the people's interests but our party has taken a logical, clear-cut position based on the people's interests and has consistently worked for this aim," said the Communist chairman, Mr Tetsuzo Fuwa.

Michiyo Nakamoto and Gwen Robinson

China to fund dam with bond issue

By James Harding in Beijing

China plans to issue Yn1bn ($120m) worth of bonds next month to finance construction of the Three Gorges dam, the first bond issue for the world's largest hydropower project.

The announcement yesterday of plans to issue three- and five-year bonds in November was accompanied by an appeal to international investors to support the $30bn project.

Mr Yuan Guolin, of the Yangtze Three Gorges Development Corporation, was quoted by the Xinhua news agency saying the November bond issue would be followed by more bonds and possibly a share issue in 1997.

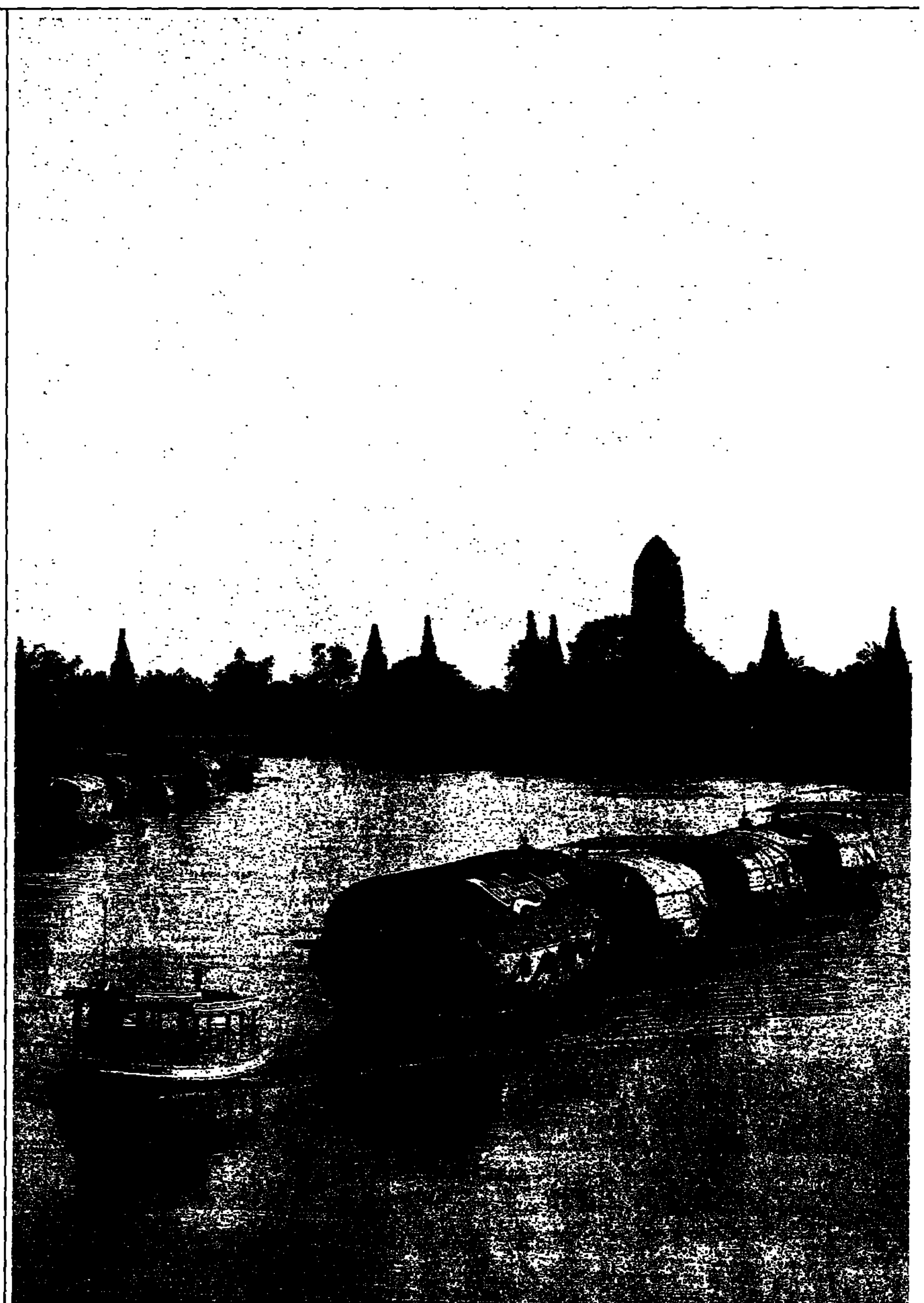
He was also hoping Hong Kong would provide financial backing: "We will further tap the role of Hong Kong as an international financial centre in our fund-raising activities and hope *Hong Kong investors* will make investment in the project."

Earlier this year, Chinese authorities said they had shelved plans to issue bonds in international markets to fund the dam following a strong build-up in China's foreign reserves.

The Three Gorges Commission had originally planned to issue $100m bonds in 1995 and a further $200m this year. However, the commission later suggested the construction could be funded from China's own resources thanks to foreign reserves of more *than $70bn at the end of last* year.

An international bond *issue would be the first test* of market sentiment for a project that has been fiercely criticised by foreign and Chinese environmentalists.

The dam will submerge 632sq km in central China, forcing the relocation of up to 1m people. It is due to be completed in 2009.



Parties braced for struggle as government drops its business proposals

Political row over shelved bills

By James Blitz and David Wighton

Two bills intended to simplify laws governing British business are to be dropped from this week's Queen's Speech, which will set out the government's legislative programme for the coming months.

The final session of this parliament will concentrate on tougher sentencing of criminals, increasing choice in education and cracking down on benefit fraud.

As ministers put the finishing touches to the legislative programme, it has emerged that two bills – which set out proposed new laws – on UK competition law and on the reform of building societies – mutually owned home loans and savings institutions – have been excluded from the Queen's address to parliament on Wednesday.

The bills could technically be tabled later under the provision for "other measures", but it seems certain they will be shelved until after the general election.

The main opposition Labour party claims that the Queen's Speech has been designed to force the party leadership to choose between alienating its own left-wing backbenchers by supporting the measures or rejecting voters it seeks to attract from the ruling Conservative party by not doing so. The Conservatives deny this, arguing that the measures they propose are at the heart of their philosophy.

Both parties are bracing themselves for a struggle over the legislative programme after signs that Labour's poll lead over the Tories could be dwindling. A poll for the Sunday Times newspaper yesterday claimed the gap between the parties had closed from 23 points to 14 points, with Labour on 47 per cent and the Tories on 33 per cent.

The building societies bill, which exists in draft form, is aimed at replacing what the Treasury calls "the outdated legal framework" limiting mutual societies, which remain owned and governed by their members.

"We had hoped that the government would find time to include the building societies bill in the next session," said Mr Paul Atkinson, head of external affairs at Nationwide Building Society. "We still think it would be helpful in providing societies with greater freedom and flexibility in the future."

The bill on competition law would have included changes to the Restrictive Trade Practices Act, removing the requirement for a wide range of supply and joint-venture agreements to be registered with the Office of Fair Trading.

A partner at a leading City law firm said it was "very disappointing" that the government appeared to have shelved the bill after an exhaustive consultation process with the legal profession and business leaders.

Major fails to cash in on big gamble

Virginia Bottomley, the UK heritage secretary, has generously started calling it "John Major's National Lottery". And on the face of it, the creation of the world's largest state-run lottery should be one of the crowning triumphs of Mr Major's premiership.

Since the lottery was launched in November 1994, more than 90 per cent of Britain's adult population has taken part. Lives have been transformed by unimagined wealth: more than £2bn ($3.12bn) has gone to good causes, from cycle tracks to historic churches; shops have made a tidy profit selling scratchcards and tickets.

Yet Mr Major's lottery has not been an unblemished political success. The benefits of the competition were quickly swamped by a deluge of unfavourable headlines highlighting some of its less savoury side-effects.

There were the overnight multi-millionaires whose wish to enjoy their new-found riches in anonymity were not respected. Camelot, the private sector consortium picked to run the lottery, faced a barrage of complaints that its profits of £77.5m in its first year were excessive. Mr Major even found it politically expedient to criticise some of the charities receiving lottery grants.

The result of the bad publicity is that the ruling Conservative government is unlikely to reap many votes as a result of having setting up a highly popular national institution.

All the main political parties agree the lottery is here to stay: the political debate has moved on to how to make it better. The outcome of the next election will influence who runs the competition into the next millennium and how the billions of pounds raised will be spent.

Camelot, the consortium made up of Cadbury Schweppes, De La Rue, ICL, Racal and US lottery owner GTech, will be hoping for a Conservative victory. Mrs Bottomley is an admirer of the way Camelot smoothly established the lottery in 1994 and the Tories would be predisposed to extending its licence when it comes up for renewal in 2001, albeit with a regulatory squeeze on any signs of excess profits.

Mrs Bottomley is scathing of the main opposition Labour party's suggestion that a "not for profit" organisation should take over the running of the contest in 2001 – an idea championed by Mr Richard Branson's Virgin group.

All parties are reviewing the causes that should benefit from the nation's previously untapped enthusiasm for low-grade gambling. Mrs Bottomley has already announced a shift in cash from buildings to people, through grants to athletes and young actors, breaching the original rule that lottery money should be used for capital, not revenue, projects.

Mr Tony Blair, the Labour leader, wants to put lottery money into home insulation, information technology in schools, and giving pupils music tuition. Mr Michael Heseltine, deputy prime minister, favours using it to put computers into schools.

In doing so, both parties are blurring the edges of another original rule for the allocation of lottery cash: that it should not substitute for normal government spending. As public spending rounds tighten, the temptation for the Treasury to loot the lottery seems certain to increase.

As for the lottery itself the figures are impressive, although weekly sales have now reached a plateau of between £88m and £90m outside weeks when jackpots are rolled over from previous weeks. Sales this financial year are likely to be £4.6bn, compared with £5.2bn last year.

George Parker
Raymond Snoddy

National Lottery policies

Conservative

- Operator: Camelot's licence reviewed in 2001. Ministers believe it has run lottery well.
- New competitions/jackpot: Heritage minister Virginia Bottomley undecided on merits of Camelot's proposed new midweek draw. No plans to limit jackpot.
- Distribution of funds: More emphasis on grants to people, instead of buildings. Better regional spread.
- Millennium money: After 2000, grants from millennium stream switched to information technology initiatives, including computers in schools.

Labour

- Operator: Camelot will continue until 2001. Then lottery could be run by "not for profit" organisation – Richard Branson's Virgin group is keen.
- Regulator: Considering splitting functions of choosing an operator and regulating its activities.
- New competitions/jackpot: Satisfied with current arrangement.
- Distribution of funds: Reviewing composition of the distributing bodies. Worried about rules on matching funds for lottery grants – some projects may be left uncompleted.
- Millennium money: Labour leader Tony Blair plans to use cash for IT in schools, insulating homes, reclaiming public space for pedestrians, supporting national talent.

Liberal Democrats

- Operator: Lottery should be run on a "not for profit" basis.
- New competition/jackpot: Introduce upper limit on jackpots. Abolish scratchcards.
- Distribution of funds: Worried about delays in distributing funds. Consider including housing, health and education projects. Review composition of boards.
- Millennium money: Continue to use millennium cash for one-off grands projects.

Tax data access to go outside Britain

By Jim Kelly

Computer experts in the US and Australia are to have access to data from the records of UK taxpayers under plans to provide a 24-hour technical back-up service for the new self-assessment tax system.

The Inland Revenue, which collects taxes, has in the past promised that the involvement of the private sector in the processing of millions of tax forms under self-assessment would not result in personal data being handled outside the UK.

The Public Services Tax and Commerce Union, with 50,000 members in the Inland Revenue, voiced concerns over the security of UK tax data when the Revenue went into an IT partnership with the US-based Electronic Data Systems.

Mr Michael Jack, the financial secretary to the UK Treasury, said in a parliamentary written answer at the end of last week that some specialist staff based overseas needed to have access to provide 24-hour cover.

The Treasury added that the data would be in "subsets" and it would be "highly unlikely" that the full personal tax details of a taxpayer could be downloaded abroad. The data were needed to help specialists tackle critical faults as they appeared.

Oracle, the software company with annual global revenues of $4.2bn, which is supplying the software package for the database holding taxpayer records, is to supply the 24-hour service using its international network in the UK, Australia and the US.

The self-assessment tax system comes fully on stream in April, when 8.5m taxpayers – including the self-employed, business partners, directors, and people who pay tax at the higher rate, and those with more complex tax affairs – will get a new-style tax form.

UK NEWS DIGEST

Challenge to VAT decision

Three leading Belgian tax lawyers have said that the UK government's decision to put a three-year time limit on claims for wrongly paid value added tax is contrary to European Union law. In a report commissioned by the accountants Deloitte & Touche, the lawyers conclude that the reforms are unfair as Customs & Excise, which collects the tax in the UK, is able to claim tax back from taxpayers for six years.

The report, prepared by three Belgian professors of law, will be seized on by a campaign led by the Confederation of British Industry, the employers' organisation, to have the VAT reforms modified. "The report concludes that this inequity breaches the fundamental legal principles of fairness and neutrality in taxation," said Mr Tony McClenaghan, a tax partner at Deloitte & Touche.

Customs announced in July that, with immediate effect, taxpayers could no longer claim back wrongly paid VAT to 1973 – when the tax was introduced. It acted on Treasury fears that a series of high-profile VAT cases posed a potential threat to the public finances. Up to £450m ($702m) has already been repaid to taxpayers. *Jim Kelly*

■ FASHION

Sportswear on upward trend

The UK sports market grew by about £150m to £2.9bn between 1994 and 1995, according to consultants Corporate Intelligence on Retailing. This figure is expected to grow as consumers follow the fashion for sportswear.

Footwear manufacturers such as Nike, Reebok and Adidas have stepped up their advertising aimed at encouraging younger consumers to treat their products as fashion items. In the year to June, the three companies spent £11.7m compared with £7.4m in 1991. *Peggy Hollinger*

■ TORY LEADERSHIP

MPs reject selection rule change

The executive of the 1922 Committee, which represents Conservative MPs, has ruled out a change to the rules for the selection of the party leader after the next general election. Recently, the Conservatives' National Union Executive Committee, which represents party activists, finalised a plan to give 20 per cent of the vote for the party leader to the grassroots and 80 per cent to the party's MPs, which at present have 100 per cent. *James Blitz*

■ ENVIRONMENT

Warning over consultation

Top business executives who advise the government and industry on the environment will today tell companies that they need to do a better job in consulting the public and explaining environmentally controversial decisions. Draft guidelines by the Advisory Committee on Business and the Environment for more effective handling of public opinion and the media come just over a year after Shell was forced by public protest to abandon plans to dump the Brent Spar oil platform at sea.

The committee, chaired by Mr David Davies, the chairman and chief executive of Johnson Matthey, the metals group, says that although many companies have sought to be more open, "there is more which business could and should be doing". *Leyla Boulton*

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Abbey Natl Treas 7% Nts '97 $70.0
Do 11.5% Gtd Nts 1997 L575000.0
Asda Fin 10¾% Cv Bd 2005 £268.75
Cassell 1.5p
Hambro Countrywide 0.5p
Hanson 10⅜% Bd 1997 £103.75
Heritage Bathrooms 3.2p
Kobe 9½% Bd 2004 £95.0
Lloyds TSB 10⅝% Sb Ln 2008 5.3125p
Lonrho Fin FRN 1997 $180.43
Morgan Stanley Eq (CI) Pf Eq Rltg to Sainsbury 5.586p
National Express 3.4p
NT & T 10¼% Nts 1999 C$102.50
Oesterreichische K 7⅛% Yen/$ Nts 1996 Y71250.0
Persimmon 3p
Royal Ins 7¼% Cv Bd 2007 £129.90
RTZ 10.6p
Sedgwick 0.75p
Texas Instruments $0.17
Tokyo Tate 6.1% Bd 1998 Y610000.0
Do 6.15% Bd 1999 Y615000.0
Treasury 4¾% IL £2.4343
Wells Fargo Sb FRN Jul 1997 $155.03
Welsh Water Utilities Fin 7⅝% *Bd 2014 £76.25*
Yokohama Fin Cayman FRN '05 Y547814.0

■ ***TOMORROW***

Am Home Prods 9.61% Bd 2007 £240.25
American Port Services 0.8p
Birmingham *Mid* Bldg Scty FRN 1998 £148.12
Black (A & C) 4.25p
Blagden Inds 1p
Brit-Borneo Petroleum Syndicate 3p
Chase Manhattan Sb FRN 2003 $279.58
Courtaulds Textiles 5.2p
Dixons Fin Gtd FRN 1997 $3224.74
Finelist 4.5p
MTL Instruments 2.1p
Municipality Fin 9⅛% Nts 1996 Ecu91.25
Northern Rock Bldg Scty FRN 1996 £149.25
Norway 7¼% Nts 1998 C$72.50
Platinum Int Fin A FRN (II) 2003 Y690616.0
Societe Gen Equity (C.I.) High Yld Pf Eq 18.491p
Steel Auth *India Glbl Dep Rcts* IRs9.90
Ulster Television 2.25p
Yokohama Fin Cayman Gtd Sb Fxd/FRN 2003 Y547814.0

■ **WEDNESDAY OCTOBER 23**

BBL Int Gtd FRN 1999 $142.97
Common. Bank of Aust Und Cap Nts $285.94
De Beers Mines/Cntnry Lkd Units $0.115
Jos Hldgs 3.61p
Northchart Invs Z$0.34
Orbis 0.675p
United Carriers 1.6p
Universal Ceramic Materials 1.6p
YTB *Fin (Aruba)* Gtd Sb FRN 2003 $1590.83

■ **THURSDAY *OCTOBER 24***

Adscene 5p
Brasway 0.55p
Britannic Assurance 5p
Caird 3p
Candover Invs 4.75p
Irish Permanent IR4p
Lambert Howarth 2.25p
Midland Independent News 1.3p
Nat West Bank Und Var Rate Nts $1657.92
Platinum Int Fin A Sec FRN 2003 Y1403835.0
Do Tanche B Y768854.0
RJB Mining 8p
RPS 1.85p
Schroders 6p
Do N/Vtg 6p
TT 2.8p
Westpac Banking FRN 1997 $14.37
Yokohama Fin Cayman Gtd Sb *Fxd/FRN 2003 $3575.0*

■ **FRIDAY OCTOBER 25**

Abbott Mead Vickers 3.25p
Alumasc 5.55p
Applied Distribution 1.5p
Barr & Wallace Arnold 3.25p
Bath Press 0.29p
Beacon Inv Tst 1.6p
Birkby 5.8p
Breedon 1.75p
Britannia Bldg Scty Sb FRN 2005 £16207.89
British Mohair 1.4p
CPC Int $0.41
Cala 2.2p
Christies Int 1.2p
Church & Co 3.25p
Conrad Ritblat 4.675p
Conversion 9½% 2004 £4.75
Corporate Services 2p
Darby 1p
Davis Service 3.39p
Devro 2.8p
Flying Flowers 1.7p
Games Workshop 4.8p
Gaskell 1.6p
Genbel South Africa R0.20
Goodman Fielder A$0.03
Grafton IR6.5p
Irish Contl IR1.8p
Japan Dev Bank 7½% Gtd Bd 1999 $75.0
Kingspan IR1.7p
Leumi Int Invs Gtd FRN 1998 $147.73
Matthews (Bernard) 1.7p
Meltek 1.25p
Metalrax 1p
Molex $0.015
Do Class A $0.015
Nestor-BNA 1.27p
Newman Tonks 3.625p
Nurdin & Peacock 3p
Pegasus 2p
Radius 0.55p
Richardsons Westgarth 1.4p
Saville (Gordon J) 1.9p
Second Alliance 34p
Do 4½% Cm Pf £1.575
Spintab FRN 1998 $14.53
Stewart & Wight 150p
Trinity Int 3.6p
Waterford Foods A IR1.36p
Wilson (Connolly) 1.36p
Wood *(Arthur)* 2p
World of Leather 0.85p
Wyko 1.25p

■ **SATURDAY OCTOBER 26**

Australia 11⅜% Ln 2015 £284.375

■ **SUNDAY OCTOBER 27**

Exchequer 15% 1997 £7.50
Treasury 4⅝% IL 1998 £2.5734

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Bailey (C.H.), Alexandra Docks, Newport, Gwent, 9.15
Castle Mill Intl, Watchmaker Court, 33, St John's Lane, E.C., 10.00
Courtyard Leisure, Wynkyn de Worde, Bride Lane, E.C., 3.30
Northern Petroleum, 40, Occum Road, Guildford, 11.30
Wyko Group, Birmingham Botanical Gardens, Westbourne Road, Edgbaston, 12.00

BOARD MEETINGS:
Finals:
Kleinwort Second Endowment Tst
Interims:
Kleinwort Endowment Policy Tst
Olives Property
Taiwan Inv Tst

■ **TOMORROW**

COMPANY MEETINGS:
Compel Group, Exchange House, Primrose Street, Broadgate, E.C., 11.30
***Eve Group,** Minster House,* Plough Lane, S.W., 10.00
Fleming Overseas Inv Tst, Chartered Insurance Institute, 20, Aldermanbury, E.C., 12.00
Pan Andean Resources, Stonecutter Court, 1, Stonecutter Street, E.C., 10.30

BOARD MEETINGS:
Finals:
Paterson Zochonis
Scottish Metropolitan Property
Wolseley
Interims:
Airflow Streamlines
Boxmore Intl
Dumyat Inv Tst
Edinburgh Inv Tst
Guinness Flight Venture
Seton Healthcare

■ **WEDNESDAY OCTOBER 23**

COMPANY MEETINGS:
Almusac Group, Founders' Hall, No 1, Cloth Fair, E.C., 10.30
Anglesey Mining, 33, Great Charles Street, Birmingham, 11.30
Anglo United, 200, Aldersgate Street, E.C., 10.00
Gala, 34, South Gyle Crescent, Edinburgh, 2.00
Jos Holdings, 10, Fenchurch Street, E.C., 12.30
Rubicon, Ironmongers' Hall, Shaftesbury Place, Aldersgate Street, Barbican, E.C., 12.30
Usher (Frank) Holdings, 7-12, Noel Street, W., 11.30

BOARD MEETINGS:
Finals:
Scottish Oriental Smaller
Interims:
Davenport Knitwear

■ **THURSDAY OCTOBER 24**

COMPANY MEETINGS:
Allied Leisure, 11, Gough Square, E.C., 9.30
Amstrad, Tower Thistle Hotel, St Katherine's Way, E., 3.00
Close Brothers, 12, Appold Street, E.C., 10.30
Fieldens, Cedards Hotel, Needham Road, Stowmarket, Suffolk, 11.00
Govett Emerging Mrkts Inv Tst, Shackleton House, 4, Battle Bridge Lane, S.E., 12.00

BOARD MEETINGS:
Interims:
British & American Inv Tst
Scottish Mortgage & Trust

■ **FRIDAY OCTOBER 25**

COMPANY MEETINGS:
Albemarle & Bond, Holiday Inn Crowne Plaza, Victoria Street, Bristol, 11.30
Black (Peter) Holdings, The Brewery, Chiswell Street, E.C., 11.00
Cornwall Parker, Waldorf Hotel, Aldwych, W.C., 11.00
Great Universal Stores, Chartered Insurance Institute, 20, Aldermanbury, E.C., 12.00
Linx Printing Technologies, Slepe Hall Hotel, Ramsey Road, St Ives, *Cambridgeshire, 10.30*
Winchester Multimedia, 3, Cornwall Circus, Birmingham, 12.00

BOARD MEETINGS:
Finals
TR Far East Income Tst
Interims:
Alida
Silk Industries

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

Retailers expect sales boost and stable prices

By Robert Chote and Richard Adams

Most of Britain's retailers are expecting increased sales and stable prices in the run-up to Christmas, according to a survey by Dun & Bradstreet, the business information group.

The survey comes in a week of official statistics and business surveys expected to underline the UK economy's growing strength.

This could put further upward pressure on sterling if dealers conclude that Mr Kenneth Clarke, the chancellor, may not be able to wait until the general election before pushing up interest rates.

About 60 per cent of the retailers polled by Dun & Bradstreet said they expected an increase in orders over the next few months – a slightly more optimistic response than three months ago.

The official retail sales data on Wednesday, however, are expected to be among the few weak indicators of economic activity. After August's unexpected 1 per cent increase in retail sales, analysts on average expect a 0.1 per cent decline for last month. "The trend in retail sales is strong, but the monthly figures could prove volatile," says Mr Kevin Gardiner, economist at Morgan Stanley.

Despite hopes of increased sales, few retailers said they expected to be able to increase their prices. Mr Philip Mellor, senior analyst at Dun & Bradstreet, said: "Expectations for increased selling prices have risen only modestly."

The focus of attention for economists this week will be Friday's gross domestic product figures for the third quarter of the year, and tomorrow's quarterly survey of manufacturers by the Confederation of British Industry. GDP is forecast to have risen by 0.8 per cent in the third quarter, taking the rate of expansion in the economy above its long-term trend rate. A strong growth figure might persuade Mr Eddie George, the governor of the Bank of England, to strengthen his argument for higher interest rates when he next meets Mr Clarke on October 30. Sterling has risen recently, in part because of expectations that stronger economic growth may make an increase in interest rates more likely. Mr Clarke might argue that a strong pound will in itself take some of the steam out of the economy. But Mr George may argue that sterling's strength might be reversed if Mr Clarke fails to deliver the rate increase the markets are looking for.

Mr George yesterday urged the chancellor to keep firm control of the UK's budget deficit, in case Britain wanted to join a single European currency in 1999.

Speaking on BBC radio, Mr George said he regarded it as "absolutely fundamental" that Britain should be ready to join a single currency.

"This isn't a political matter. It's not influencing the decision – which is a political matter, as to whether or not we join. It is just making sure that we are prepared," Mr George said.

Cow cull delay may lead to milk fines

By Maggie Urry

Dairy farmers, already suffering a loss of income from the BSE crisis, are worried they will have to pay penalties running into millions of pounds for over-producing milk. They say the backlog of cows for slaughter is likely to push up milk supplies, putting UK production over its European Union quota.

"November will be the telling time," said Ms Julie Smith, milk and dairy adviser for the National Farmers Union.

If milk production in the year to March 31 1997 exceeds the UK's quota of 13bn litres, farmers who over-produce will suffer a super-levy of 31p a litre. That exceeds the milk price of about 24p a litre, making it a severe penalty.

The UK has often exceeded its quota since the system began in 1984. In the 1995-96 milk year the UK paid nearly £45m in super-levy.

This year many farmers are blaming the BSE crisis. Mr Peter Dawson, commercial manager at the Dairy Industry Federation, said: "Undeniably there has been an effect from the backlog."

Ms Smith said uncertainty caused by BSE – bovine spongiform encephalitis, or mad cow disease – made it hard for farmers to plan. Many bought heifers earlier in the year to replace cows they expected would be culled. These animals are now beginning to give milk.

Meanwhile, the delay in the slaughter scheme and the government's decision not to pursue the selective cull has left more cows on farms. Mr Anthony Gibson, regional director of the NFU for the south-west of England, said: "Small farmers need the cashflow and it makes sense to carry on milking." Mr Tony Carver, head of Bruton Knowles, a leading milk quota trader, said milk production this winter was probably "going to spiral through the roof".

Turkish baths come to a painful end

By Chris Tighe, North East Correspondent

Declining employment in heavy industry on Teesside, in the north-east of England, has claimed an unlikely victim: a Turkish baths complex where workers used to relax and sweat out the grime and aches of their daily labours.

Yesterday the Turkish suite at Eston Leisure Centre, close to British Steel's Redcar blast furnace and ICI's Wilton petrochemical complex, opened its doors for the last time.

At its peak 25 years ago, when it attracted up to 400 users a day, manual workers packed its extensive two-floor facilities, sweating in steam rooms that were heated up to 30°C, plunging into brine baths, drinking tea in the lounge and even taking a reviving nap.

In 1975, Teesside's oil and chemicals and metal manufacturing industries employed 56,100 people; by 1995 this had dropped to 25,600. The reduction has cut the numbers able to afford visits to the Turkish suite, even at £2.80 ($5) for a daily session of unlimited length. Improved leisure facilities in remaining heavy industrial workplaces have also dented numbers.

When Redcar and Cleveland council, the local authority for the area, discovered it was subsidising the baths' annual £112,000 running costs by £56,000 a year, it decided the 28-year-old suite must close.

Large Turkish baths are expensive to run because of their energy and water consumption. Many modern leisure centres instead install smaller Scandinavian-style saunas, with a steam room attached.

But devotees, who say nothing can compare with the full-scale Turkish bath experience, are devastated by the closure. Eston regulars such as Ted Harkin, a retired British Steel blastfurnaceman, said it was both a club and a place of relief from aches and pains. "It's like going to Lourdes."

Carl Rutherford

"Like going to Lourdes": Teesside workers unwind for the last time in their Turkish baths

Manufacturing pay awards 'still falling'

By Richard Donkin

The size of pay awards in manufacturing is continuing to decline and the salary gap between managers and employees is widening, according to two sets of pay statistics published today.

The Confederation of British Industry said that provisional pay awards in the manufacturing sector averaged 3.2 per cent for the three months to September 1996. This compares with 3.5 per cent in the three months to June and 3.3 per cent for the three months to September 1995. Pay awards in the service sector have been stable since the start of the year, averaging 3.6 per cent over the three months to September, the same as the average over the previous three months, said the CBI.

The declining manufacturing awards can be compared with manufacturing companies' expectations of increasing productivity growth. In the third quarter companies reported productivity growth of 4.8 per cent over the previous 12 months with expectations of growth averaging 5.2 per cent in the next 12 months. The CBI survey showed that in the year to July 31 1996 the biggest distribution of pay settlements were in the 2.5 to 3.5 per cent range of increases. A significant proportion, however – 29 per cent in manufacturing – were in the 3.5 to 4.5 per cent range. The differences in pay settlements between managers and employees, however, is creating a broadening pay gap, according to Sedgwick Noble Lowndes. Its survey of executive pay in 1,076 companies, found that median base salary increases for UK managers rose by 5.1 per cent last year.

Executives working in general management, personnel and finance, fared best with base salary increases of 5.8, 5.7 and 5.2 per cent respectively in the last year, compared with 4.5 and 4.2 per cent increases for those in operational and information technology functions.

The survey also found that bonuses are taking up an increasing proportion of overall pay in executive salaries, now representing 12.6 per cent of base salary. Directors of parent companies are seeing an even larger proportion of total pay in bonuses – 18.4 per cent of base salary, on average, up from 16.8 per cent three months ago and 15.5 per cent six months ago.

Mr Andy Christie, Remuneration consulting director at Sedgwick Noble Lowndes, said that the increasing pay gap was being influenced by recruitment demand for high calibre executives.

Ports to invest more as competition grows

By Charles Batchelor, Transport Correspondent

Britain's ports are expected to make large increases in investment on information technology systems, dredging and handling equipment over the next two years as competition between the recently privatised companies grows more intense.

Investment is expected to amount to about £760m ($1.2bn) in 1996, but will rise by 8 per cent to £822m next year and a further 6 per cent to £870m in 1998, according to a report by MSI Marketing Research for Industry. Spending will fall back slightly over the subsequent three years to £840m in 2001.

The UK has more than 300 ports, ranging from small river wharves and fishing harbours to large cargo-handling centres such as London and the North Sea port of Felixstowe, on the east coast of England. The seven largest ports accounted for 54 per cent of total trade during 1995, led by London which handled 51m tonnes of traffic.

The large number of ports means there is excess capacity and fierce competition for cargos.

Although only a small number of ports has been privatised, their move into the private sector has focused attention on their earnings potential. The ending in 1989 of the dock labour scheme, which guaranteed jobs to registered dockers, allowed ports to boost productivity and prompted the newly privatised ports to develop their facilities.

Ports are increasingly carrying out investment projects to meet the requirements of their main clients and to remain competitive, MSI said.

THIS WEEK

Santer shakes the House of Favours

DATELINE

Brussels: the long overdue reform of European Commission culture is a priority of its discerning president, writes **Lionel Barber**

Reliable sources say Jacques Santer has lost his temper only three times in nearly two years at the European Commission. The Commission president turned purple when a Green MEP implied he treated G-7 economic summits as junkets. He also ripped into free-market colleagues for promoting rapid deregulation of Europe's postal services, without regard for the cost in lost public sector jobs.

But the most spectacular outburst of presidential wrath occurred recently when Christos Papoutsis, the Greek commissioner responsible for energy and tourism, wrung his hands over what to do with Heinrich von Moltke, the 63-year-old head of the troubled small business and tourism directorate.

Von Moltke, it will be recalled, is the subject of a Belgian police investigation into the misappropriation of EU funds involved in the 1990 European Year of Tourism, a high-minded venture which turned out to be a vehicle for funnelling kickbacks to favoured contractors. At least two other former Commission officials are under scrutiny.

The Belgian authorities have so far failed to persuade the Commission to lift von Moltke's immunity. The German insists he is innocent. The Commission accepts his word, and has offered him money to clear his name in court. But on the broader question of management competence, the powers-that-be in Brussels are reticent.

Last week, on Santer's insistence, Commissioner Papoutsis offered director-general von Moltke early retirement under the so-called Article 50 provision. The assumption is that he will take his golden hand shake gracefully.

Many would see the departure of von Moltke, a long-serving civil servant with an impeccable Prussian pedigree, as proof that the Brussels bureaucracy is in terminal decline. That judgment is premature.

This week, the Commission is due to disclose long awaited reforms of its own administration. Proposals include a proper grading system for bureaucrats, a more rigorous and transparent appointments and promotion policy, and new emphasis on rewarding merit.

The reforms mark a break with the era of Jacques Delors, who always showed more interest in the big idea than in the balance sheet, and never got to grips with managing his own organisation. The idea is to curb the cosy system of national patronage and mutual back-scratching that has turned the Commission into what one senior official calls the House of Favours.

The man leading the charge for a change in culture in Brussels is Erkki Liikanen, an energetic former Finnish finance minister in charge of budget and personnel policy. Liikanen has already made his mark through the creation of a new cadre of "financial managers" to control spending, their potential reward being fast-track promotion.

Liikanen's first plan is to liberate the appointments process by means of open competition. This already applies to young bureaucrats aged 32-35. In the most recent concours some 50,000 people entered and 200 won places. But competition has never been entirely serious in the middle ranks.

Commissioners prefer to horse-trade over senior posts, sometimes out of nepotist impulses but often under pressure from national capitals which want to reward political favourites with high-paying jobs in Brussels.

Liikanen wants to tighten up on other practices such as the abuse of "temporary agent" status. That is the ruse whereby civil servants from national capitals arrive in Brussels as "national experts", serve three or four years in the bureaucracy, then switch status to temporary agents who are paid by national governments but still draw an allowance from the Commission.

With one foot in the door, temporary agents often turn into permanent civil servants, thanks to personal contacts with commissioners or their cabinet staffs. Many are talented specialists, but others are journeymen. The point is that an entire layer of middle management has come into being with next to no objective control over the quality of the intake.

The second area of reform focuses on grading and assessment. Insiders say the present system has collapsed. With the exception of the legal service, top bureaucrats are too busy or too lazy to carry out serious staff appraisals. So everyone walking around the Commission is rated as a genius, says one Santer aide, half-smiling.

The final area for reform is our friend, Article 50. In the past, notably at the end of the Delors Commission, the golden handshake has been used as a means of clearing out top layers of management and freeing posts for younger people as well as new bureaucrats from Austria, Finland and Sweden, which joined the EU in 1995.

But Article 50 has been hugely costly. In 1994, it was extended to a handful of talented 50-year-olds who took the offer of early retirement on 70 to 80 per cent of annual salary.

Internal reform of the Commission is as important as eye-catching projects such as monetary union and enlargement. Unless the Commission runs a tight shop, how can it tell member states to cut public spending in order to join Emu? Or how can it cope with new members from central Europe?

Santer, often accused of being a weak president, has understood this well. He deserves credit.

The Monday Profile: Jean-Luc Lagardère, Thomson Matra

General with a flair for defence

It was like Monty after Alamein, said one Lagardère executive describing his boss's speech last Wednesday afternoon.

The general, Jean-Luc Lagardère, thanked his troops – exhausted after eight months of lobbying the French government for the right to buy the state-owned Thomson electronics group – for efforts that had wrested victory from the jaws of defeat. The general view in Paris was that Thomson would go to the rival Alcatel group. In September, the Lagardère group thought their chances finished.

Once privatisation formalities are completed and the approval of the European Commission obtained, the Lagardère group will almost double in size. By paying a symbolic FFr1 to the government, which will itself provide a FFr11bn (£1.4bn) capital injection into heavily indebted Thomson, Lagardère will go from a FFr52bn a year business, employing 43,600 people to one turning over FFr86bn a year with nearly 90,000.

So, at 68, when many ponder retirement, Lagardère finds himself at the head of what will be, by far, Europe's largest defence electronics company. He will form – and retain at least 60 per cent of – a new company called Thomson Matra. Its core will be Thomson-CSF's FFr36bn a year defence/professional electronics business, to which Lagardère will add some FFr25bn of its own defence hi-tech business (some of which it does not strictly own, but effectively manages in joint ventures). That will put it level second in the world with Hughes of the US.

This year has turned out Jean-Luc Lagardère's lucky year. In May, Matra forged a missile partnership with British Aerospace. Together they went on in July to win a big cruise missile order from the UK defence ministry.

For months, the Thomson dice looked loaded against him. Alcatel looked the stronger candidate, making what seemed to be a global, all-French offer for Thomson until it, too, admitted that it would need an Asian electronics partner for Multimedia. When Alcatel got government approval in late August to negotiate a GEC-Alsthom merger with Framatome, "we thought we were dead", said a Lagardère insider. Not only would such a deal release cash for Alcatel, but it seemed the state was in cahoots with Mr Serge Tchuruk, head of Alcatel.

The latter was also the preference of the finance ministry which wanted a global sale (Multimedia as well as CSF); the industry ministry which had close links to Alcatel's huge telecoms business and virtually none to defence contractors; and the defence ministry which has often found Matra too independent for its liking. The senior Elysée official dealing with Thomson seemed biased in Alcatel's favour. As to the very top, Tchuruk is said to have a closer relationship with President Chirac than Lagardère.

The latter spent an uncomfortable couple of days as part of a business delegation with Chirac in Poland in mid-September. Ostensibly, Lagardère came along to promote his group's bid to win a Polish newspaper distribution business, but all the time he was wondering what was in the president's head about Thomson. Prime Minister Alain Juppé swung the president's mind and the deal in Lagardère's favour.

How will Lagardère adapt his loose and informal management style to the more structured approach required for a business like Thomson-CSF? Will the very different Hachette press and publishing part of the group be spun off? The most awkward question is also the most personal: is the quasi-hereditary appearance of the Lagardère group suitable to managing the electronic "crown jewels" of French defence?

This question, raised inside the Elysée, stems from the fact that Lagardère is a *société en commandité*, a French device whereby board members and shareholders hand over power to top managers, known as *commandités*, who become nearly impossible to unseat, but bear unlimited liability. It makes a company impregnable to takeover, and is usually confined to family businesses.

But the Lagardère family owns only 4.8 per cent of the group. Yet its two *commandités* are, at least until end-1998, Lagardère himself and a shell company called Arco, composed of his son, Arnaud, with a few close associates like Philippe Camus, the group financial wizard. It is clear that father would like son to succeed him. Lagardère senior said so on Saturday night. Speaking to students at the Sorbonne, he denied "dynastic pretensions" but said that as "still a Gascon peasant at heart", part of the pleasure and motivation for building a business up was the thought of keeping it in the family. Arnaud Lagardère is an aimiable, energetic 35-year-old devoted to his father and to the group whose Grolier publishing business he runs in the US. But it is not clear to everyone else that he would necessarily be the right person to run so large a slice of French defence.

David Buchan

FT GUIDE TO

Sterling

I see the pound is rising at long last?
Yes. Sterling has climbed from DM2.29 to DM2.456 since the start of August, its highest level for 21 months. And, on a trade-weighted basis, which compares the pound with the currencies of the UK's main trading partners, it has edged up from 84.5 to 89.3.

So Britannia rules the waves again?
Try not to get carried away. When sterling was in the European exchange rate mechanism from 1990 to 1992, its central rate against the D-Mark was DM2.95. In fact, the UK's currency has been in decline for as long as anyone can remember. Back in 1971, it could buy almost 9 marks and 13¼ French francs. So far, the recent climb is just a blip in a long-term trend.

So what has been buoying the pound?
The strength of the US dollar for one thing. The pound has recently had a remarkably close link with the US currency, a lot closer than the "special relationship" between the two countries' politicians. Since the start of 1993, the dollar/pound rate has hardly been outside the $1.45-$1.65 range. The dollar has rebounded after a long period of weakness, dragging the pound up with it.

So sterling is hanging on to the dollar's coat tails?
Not entirely. Sterling has managed to gain a bit of ground on the US currency as well. For the moment, the pound looks good compared with some of the European currencies, including the mighty D-Mark.

Even though the UK is prevaricating about joining Europe's proposed single currency?
That seems to be helping. Governments are frantically producing restrictive budgets, full of spending cuts and tax increases, in order to meet the Maastricht criteria for joining monetary union, which say that countries' annual deficits should be no more than 3 per cent of gross domestic product. That is putting a lot of pressure on their economies, and central banks are reacting by keeping interest rates low. The core countries – France and Germany – seem happy to let their currencies slip.

And the UK looks good in contrast?
Absolutely. Economic growth is picking up in Britain, thanks to tax and interest rate cuts, so the UK looks a more attractive place to invest. At the same time, UK interest rates are much higher than those in continental Europe, so a European investor who buys the pound gets an instant income uplift.

The excitement over monetary union has also meant that bonds in countries such as Italy, Spain and Sweden have been rising, since investors reckon the foreign exchange risk will disappear. As those bonds rallied, UK government bonds (gilts) started to look attractive in comparison, and that prompted some buying of sterling.

Anything else?
Well, the oil price recently broke through $25 a barrel, its highest level since the Gulf War. While the pound does not enjoy the same kind of petro-currency status it had in the early 1980s, an oil price rise is still good news for the UK's balance of payments and thus for sterling.

With an election due, aren't investors worried about the prospect of a Labour government?
Not as much as they used to be. Labour has done a good job in persuading the financial community that it will be responsible with regard to inflation and public spending. There are even those who think Labour is more likely than the Conservatives to take the pound into monetary union, and are buying the currency on those grounds.

Hold on. You said that not being part of monetary union was helping the pound as well.
Yes, it's "heads we win, tails you lose" just now. But markets can believe two impossible things before breakfast when they like a currency.

Should all Britons be rejoicing?
It depends. Sterling's recent good health is good news for anyone going on a foreign holiday, although the gain has hardly been astonishing. And British exporters will find it more difficult to sell their goods abroad because of the change.

Further, many people date Britain's economic recovery from the early 1990s recession to the day in 1992 when the UK quit the EU's exchange rate mechanism and allowed the pound to devalue. It seems odd to be celebrating because the process is starting to be reversed.

I'm confused. Is Britain better off with a strong currency or a weak one?
Having a strong currency didn't do the Germans, the Swiss or the Japanese any harm for a long time. Their citizens are a lot more prosperous than the British. But even they eventually had too much of a good thing. Their currencies became so strong in the early 1990s that their industrialists were struggling to compete.

A strong currency is good news if it is the result of a strong economy, good growth, low inflation, sound monetary policy and a healthy current account position. But if a currency is strong when the fundamentals do not justify it, but merely because politicians are trying to prop it up, the results can be disastrous.

The UK's economy was clearly too weak to support the pound's value in the early 1990s. The recent rally may be more soundly based.

Philip Coggan

Robert Chote · Economics Notebook

Banking on a catastrophe

Guidelines may help prevent fresh disasters in emerging markets

In the wake of the financial crisis which engulfed Mexico in 1994-1995, several steps have been taken to prevent a repetition. New quality standards have been created for economic data, the International Monetary Fund's emergency credit line has been enlarged and the IMF's surveillance of national economies has been stepped up, to name but three. The international financial institutions are now turning their attention increasingly to the state of emerging market banking systems.

And with good reason. At least two-thirds of the IMF's 181 member countries have suffered banking crises since 1980. In developing and transition economies, the cost of resolving these crises has approached $250bn (£160bn) in total – absorbing between 10 and 20 per cent of a year's national income in the cases of Venezuela, Bulgaria, Mexico and Hungary.

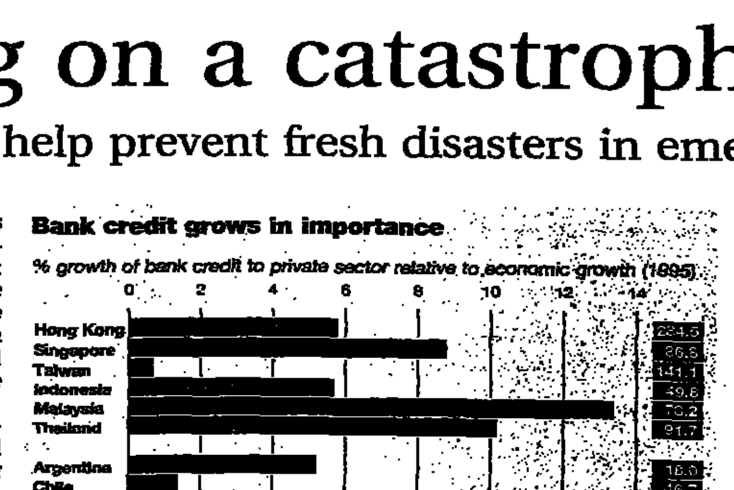
Banking crises inflict considerable damage on the economies in which they take place. One reason is that bank credit has grown rapidly in many emerging markets, relative to the size of their economies. Often these banks hold considerable stocks of domestic financial assets, operate the payments system and provide liquidity to security markets. So when crises strike they can cripple economic activity, choke off credit and place severe strains on interest rate and budgetary policies. And with emerging economies more integrated into the world system, the potential for crises to spill over into other countries has risen.

Michel Camdessus, the IMF's managing director, told an Inter-American Development Bank conference last month that he suspected the next Mexican-style financial upset would begin with a banking crisis or that, if it did not, it would almost certainly be worsened by one.

Larry Summers, deputy secretary at the US Treasury, said that regulators had gone a long way towards identifying what underlies sound supervisory regimes for banking and securities industries as well as the legal and operational frameworks sound financial markets need. "The challenge now is to define more specifically how these might need to be modified and refined to fit the specific circumstances of emerging markets", he said.

Morris Goldstein, senior fellow at the Institute for International Economics in Washington, argues for an ambitious international banking standard, on the model of the data dissemination standards which the IMF launched last month. That would address the problem that the rules laid down by the Basle Committee on Banking Supervision were aimed at industrial countries and are less appropriate for developing ones. Banks failing in Mexico and Argentina, for example, actually satisfied the Basle Accord standards.

Adherence to the international banking standard, like the data standards, should be voluntary, according to Goldstein. The financial markets would be left to draw their own conclusions from a failure to participate, but in a crisis a country's access to help financed by an activation of the IMF's emergency credit line could also depend in part on participation in the banking standard, he suggests.



Goldstein also recommends that the standard should have two levels, again mirroring the data standards framework. He notes that the market orientation, financial and banking structures in the transition economies and the developing economies of Asia are very different from those in the more advanced emerging economies.

But John Heseltine, deputy managing director of the Institute for International Finance, the Washington-based umbrella group for financial institutions, fears that the qualitative differences between the characteristics of national financial systems are so great that even a two-level standard would be very difficult to operate with sufficient flexibility. He argues that the relative importance of different aspects of the financial system would need to be examined carefully in each country.

The complexity of the task – and the comprehensiveness of the standard – would depend on the criteria included. Goldstein identifies a number of areas, including the following:

- Standardised information on bank performance, income and balance sheets, should be disclosed. The tougher standard might also require banks to be rated by internationally recognised credit-rating agencies.
- Loan classification and provisioning practices should be standardised. So, for example, the looser standard might demand that a loan unpaid for 180 days should be classified as non-performing, compared to 90-120 days for the tougher standard.
- Government involvement in the banking system should be transparent so supervisors can verify that the exposure is as reported.
- Participants would agree to adopt the 8 per cent capital-to-assets ratio demanded in the Basle accord, with the higher standard perhaps demanding a 12 per cent ratio from countries with a recent history of loan defaults, restructurings or above average government assistance to troubled banks.
- Some element of rules-based supervision might be demanded, so that corrective action is mandated automatically once banks' capital positions cross certain tripwire levels.
- The 1992 Basle Minimum Standards on supervision should be adopted so, for example, that all international banks are overseen on a global basis by a qualified home country supervisor.

A standard of this sort would no doubt prove more controversial and more complex than the data standards established in the wake of the Mexican crisis. Policymakers would, for example, have to decide whether such a standard should be formal or informal and, crucially, who should police it. But whatever the difficulties, these ideas are set to remain high on the international agenda.

Tim Jackson

Round up the junk mail cowboys

If the Internet is the Wild West, Sanford Wallace must be one of its most infamous cowboys. Wallace, a businessman in Pennsylvania, runs a company, Cyber Promotions, which offers to distribute advertisements to 100,000 people by e-mail for "less than the cost of 10 first-class stamps".

To advertisers who are used to paying 10 cents a name just for mailing lists, then paying postage in order to send out their junk mail, this sounds too good to be true. It is. The trouble with unsolicited e-mail is that while some people trash it, others get very angry. Unsolicited e-mail or newsgroup postings are known on the Net as "spam", and "spammers" are viewed by many people online as only marginally better than child pornographers and terrorists.

At least a dozen Web sites are devoted to the aim of orchestrating campaigns to punish spam. Among the remedies suggested is to call up companies like Cyber Promotions on their 800 numbers to explain, at their expense, why the sending of unsolicited mail is so irritating. Most people choose to hit the "reply" button and send back an abusive message.

If only 10 per cent of recipients do this, an outbound mailing to 100,000 names will produce 10,000 angry replies: enough to clog up a mailbox for days on end.

So people like Wallace have to live in a state of electronic hiding, like owners of *samizdat* printing presses in the former Soviet Union. When they send out unsolicited mail, they generally use a false address. They also keep changing their Net service providers (ISPs) in order to stay one step ahead of their pursuers.

Recently, however, America Online, the world's biggest online service, has entered the junk wars. After Cyber Promotions sent e-mail to 650,000 of its customers, AOL hit back by saving up all the mail to invalid addresses and sending it back to Cyber Promotions in one go. The result was a server crash at Cyber Promotions' ISP, which promptly terminated its contract with Wallace to avoid further trouble.

But Wallace would not play dead; he sued AOL for unfair competition, denial of free speech – and other things. AOL then counter-sued. The case is still before the courts. Judging by the 200 pages or so of papers I've read, it has become bafflingly complex.

To anyone outside the US, it seems clear the issue raised by junk e-mail is money. While phone calls from salesmen during dinner are irritating, the recipient of junk e-mail often has to spend money downloading it to discover it is not worth reading. That makes people really angry.

Some have proposed legal responses, such as an outright ban or a requirement to label all unsolicited e-mail so recipients can reject it in advance at no cost. But the problem may create its own solution. One company, Junkbusters.Com, has a Web site that provides a legal "offer" which Net users can send to junk mailers, intended to place them under a legal obligation to pay for the reading of every piece of junk they send in future.

Recognising that advertisers want to use e-mail but Net users are not willing to read junk uncompensated, a company called CyberGold has built a system that allows people to sign up as willing recipients of junk mail, in certain categories, for payment of 50 cents or more for every piece of junk they read.

The service is pitched to advertisers as convenient, as it saves them the trouble of trying to figure out what kind of content to sponsor in order to reach their audience; and as cost-effective, because they do not pay for a single recipient who does not read their message. To make sure advertisers get their money's worth, readers have to prove that they have read the ads attentively by answering quizzes.

When it is launched shortly, the service will also allow people to sell their postal addresses to advertisers for about $8 (£5.10) a time. Payments will be in tokens with the Wagnerian name of CyberGold, redeemable against a range of products and services.

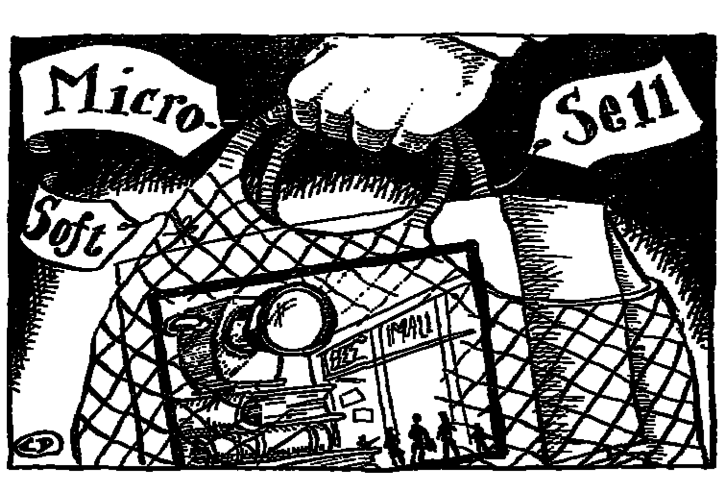
It may sound nutty, but the company, in Berkeley, California, has the backing of two of the leading luminaries of America's high-tech establishment: Regis McKenna, one of Silicon Valley's leading PR strategy gurus, and Jay Chiat, co-founder of the Chiat, Day advertising agency.

CyberGold raises the wonderful possibility that Net addicts may be able to turn their time-wasting into a source of income. Better still, it may provide a market solution to the problem of the Wild West cowboys. Once advertisers start to discover that they get better responses by paying consumers to read their messages, they may give up the cruder, more irritating forms of junk e-mail.

tim.jackson@pobox.com

Gates casts his lines for a Net profit

Geoffrey Wheelwright in Seattle and Louise Kehoe in San Francisco map online markets



Microsoft will next month re-launch the Microsoft Network (MSN) as an Internet-based information, shopping and entertainment service, carrying on a long tradition of hitting the mark with the second or subsequent releases of its products.

The first version of MSN, introduced a year ago, was based on proprietary technology. Users needed Microsoft software, while information providers – predominantly media companies – had to format their content using special Microsoft tools.

But the rising popularity of the Net quickly convinced Microsoft that it needed to change course. The company has now revamped MSN. Rather than competing with the Net for attention and users, MSN is now part of the global network.

All Net users will be able to view portions of MSN free of charge. Paying subscribers will be provided with a new "viewer" program that gives them access to a broader range of features.

The main difference that MSN's existing 1.6m subscribers will notice when the service goes live next month is expansion of content. Among the new features of MSN 2.0 is Expedia, an online travel booking service being jointly launched with American Express. There will also be an investment management service, Microsoft Investor, for trading stocks online and tracking markets, and an online shopping mall called The Plaza. Microsoft has also announced an ambitious plan to offer localised online city-specific entertainment magazines, initially in the US.

Microsoft boasts that the new service will "redefine what it means to be online". For example, MSN will feature "Web-shows" organised into six television-style "channels". The Web-shows range from the lowbrow "15 Seconds of Fame", which gives members a chance to offer stories about important life events such as "the first time I got drunk", to more philosophical shows such as Retrospect 360 Degrees, a multimedia view of topics such as "history of the future". Other Web shows include Star Trek: Continuum and Entertainment Tonight.

There will be news from the MSNBC, a joint venture with NBC television. "Our goal was to create a network that is easy to use, well produced, and makes sense of a new medium to our audience," says Bob Bejan, MSN's executive producer.

Market analysts see MSN as a direct challenger to AOL, CompuServe and Prodigy as well as to popular Net-based services such as those operated by newspapers, magazines and online entertainment organisations.

Last month AOL announced marketing initiatives aimed at "building consumer loyalty, increasing retention, and differentiating brand attributes".

Bill Gates, Microsoft's chairman and chief executive, insists however that he is not out to steal subscribers from established services such as AOL. His goal, he says, is to expand the market for online services.

"The day I read he [Steve Case, chief executive of AOL] has 10m subscribers – that's not a bad day," says Gates. "It means online service subscriptions are doing very well."

MSN is, nonetheless, aggressively priced. The service, including unlimited access to other Net sites, will sell for $19.95 (£12.70) a month in the US. Such "flat rate" fees are attractive to avid online fans but are so far not available from services such as AOL, which charge by the hour.

Mark Mooradian, a senior analyst at Jupiter Communications, a New York Net consultancy, is sceptical about Microsoft's claim that it simply wants to expand the online market. He sees Microsoft winning subscribers from other Net service providers (ISPs), including AOL.

Mooradian was surprised, he said, that Microsoft's announcement of MSN 2.0 has not yet prompted price cuts by AOL. The market leader may believe that it does not have to respond to MSN because it is offering a wider range of content, he speculated.

But AOL and other online services may yet be forced to adjust their pricing, because Microsoft will soon start a $100m marketing blitz including TV, radio and print.

That is still well below AOL's $400m a year budget for advertising. But Microsoft has many "free" opportunities to promote its new online service such as the continued presence of the MSN logo on the Windows 95 desktop.

Jupiter predicts that Microsoft will at least achieve its short-term goal of doubling the number of subscribers to MSN during the next 12 months.

Microsoft says that it does not expect to make money on the service for at least three years. In the longer term, however, the company believes that annual revenues of about $13bn to $15bn will be generated on the Net by 2000, and it is aiming to get 10 per cent of that business.

Perhaps Microsoft's greatest strength, however, is its ability and determination to stick with a project until eventually it creates a winning product. The only question about MSN is whether it will be version two, three or four that takes the market by storm.

Cyber sightings

by Stephen McGookin

● Wall Street Research Net (*www.wsrn.com*) has a wide-ranging list of links to markets, stocks and economic information, as well as business news and US government data.

● Carlson Online (*www.fin-info.com*) is a good source for Canadian public company investor information. There are press releases and stock charts for companies on the Toronto, Montreal, Alberta and Vancouver stock exchanges.

● Volvo's new site (*www.volvocars.co.uk*) promises much but seems to be unnecessarily Frames-based. It has more information about Volvo cars than you might ever want, but you can win a mountain bike by telling them how good it is. Virtual Showroom (*www.virtual-showroom.co.uk*) made its debut at the Birmingham Motor Show last week: a no-nonsense interactive catalogue of new and used cars across the UK. It has a nice search facility which covers dealer networks and allows users to escape the hard sell.

● Legal Tools (*www.legal-tools.com*) describes itself as a virtual law office, with discussion groups on aspects of the US judicial system, including computer law and intellectual property and more common topics. The keyword search facility seemed to be permanently out, though.

● Asian Advertising and Marketing magazine (*www.asiamad.com*) may be a worthwhile reference point if you're doing business in that part of the world. A nicely designed site with several interesting articles and a special focus on business media, as well as a sample of its country-by-country research briefings, downloadable in Adobe Acrobat format.

● The Florida-based International Association for Electronic Commerce Professionals has put up a site (*www.aecpti.com*) where it plans to build a membership roll and offer job listings and general business info in this fast-evolving sector.

● The US Department of Energy's Transportation Technologies site (*www.ott.doe.gov*) is handy if you are involved, even peripherally, in urban transport planning or technological development of vehicles. Find out all about the Hybrid Electric Vehicle project and run a fuel economy simulator exercise.

● Finally, the most practical non-business site I've seen for a while is link-it's UK TV Guide (*www.link-it.com/tv*). It lists what's on terrestrial television each evening and links to pages for some of the shows.

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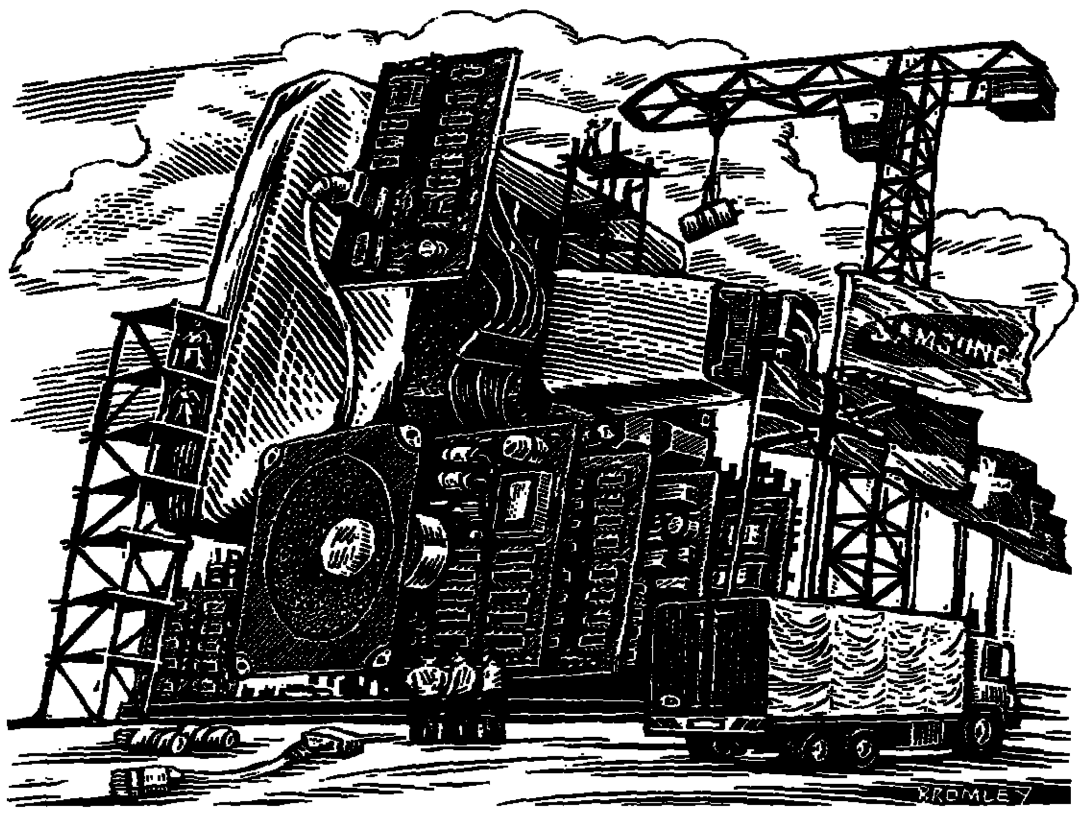
MANAGEMENT

The sum of its European parts

Tony Jackson looks at how Samsung has adapted the Korean approach to its new markets



The stampede of South Korean companies into Europe is gathering pace. Daewoo is poised to take over Thomson's consumer electronics business. Hyundai is to build a £2.4bn chip factory in Scotland. Samsung is in talks to buy Fokker, the Dutch aircraft-maker.

While the motives of the Koreans have been much discussed, another question is more elusive. The range of their investments is enormous, from microchips to earthmoving equipment. In many of those markets, only a handful of European manufacturers still compete. Why can companies from the other side of the world hope to succeed where the locals have failed?

Just this question is raised by Samsung, the biggest of the Korean conglomerates. In 1990, Samsung manufactured very little in Europe. It now makes semiconductors and computer monitors, microwave ovens, refrigerators, TV sets and VCRs, excavators, watches and cameras. Its future plans include air-conditioning equipment and vacuum cleaners, and perhaps personal computers and mobile phones.

In the past six years, Samsung's strategy has changed radically. At the outset its investments were driven by the threat of anti-dumping measures from the EU. By 1993, however, it had drawn up a European master plan. This forms part of a group-wide strategy which lays down that by the end of the decade, for instance, 70 per cent of Samsung's global production in electronics should be outside Korea.

Talking to Samsung executives in Europe, certain aspects of the plan recur. First comes brute volume of production. Mr Sang-Jin Park, president of the Spanish operation, says: "Our starting point [in 1990] was rapid quantitative growth, to achieve scale economies. From this year, we aim at qualitative growth."

With that comes a heavy emphasis on vertical integration. Samsung's biggest single strength is in manufacturing technology. It therefore aims to control most, if not all, of the elements of production.

The quantitative targets are punishing. Samsung's Wynyard plant, on Teesside in the UK, will make just under 1m computer monitors this year. Next year's target is 1.6m to 2m. Its excavator plant in North Yorkshire will make 350 units this year. The target by the end of the century is 1,500.

Samsung supplies 10 per cent of the European market from its Berlin TV picture tube factory. By the end of the century it aims at 15 per cent. At its Barcelona plant, where it makes VCRs, 1996 sales of $330m are planned to double by the next century.

At this point, certain clichés about the Korean conglomerates come to mind: that they are obsessed with volume at the expense of profit, that they rely on cheap finance, and that their chief concern is to copy each other.

Samsung executives do not deny taking a long-term view of profitability. However, they insist that profit targets are set down from the outset. Mr In Kim, president of the Berlin operation, says that when the business was bought in 1993 from the Treuhand, the East German liquidating authority, the aim was to achieve a post-tax profit within three years. In the event, growth in the eastern European market for TV sets has proved disappointing, and the target has shifted. "But if we had thought we'd lose money in the future", he says, "we wouldn't have come here."

As for finance, Korean interest rates are much higher than they used to be. Samsung says its European investments start life with an average of 30 per cent equity funding from the Korean parent. The rest is funded locally.

On the charge of copying Korean rivals, Samsung is politely dismissive. Mr Shin-Jae Kim, director of European strategy, says "we used to study our Korean competitors' moves in great detail, but not any more. We don't rate Hyundai and Daewoo as the competition. Our aim is to be a global company. The companies we try to compete with are above their level, such as Sony and Philips."

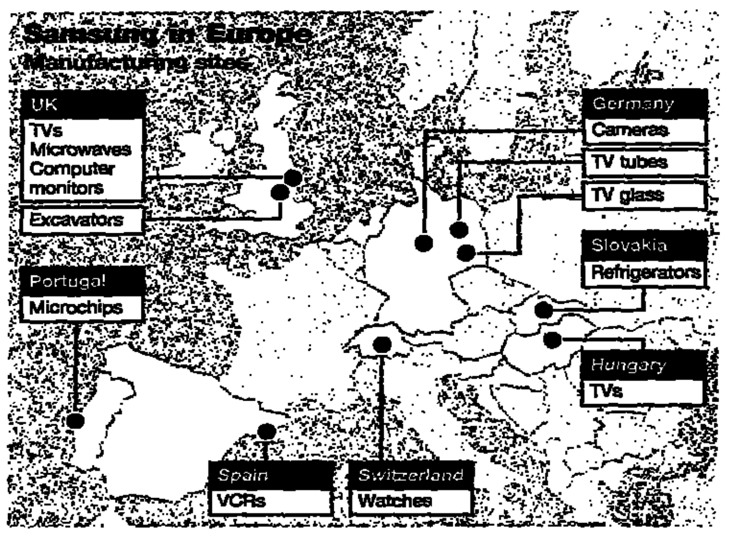
The central question remains: how can Samsung, with its vastly different cultural background, make a success of running businesses across Europe? More specifically, what kind of management structures does it put in place in its European operations?

Across Europe, Korean and local managers agree on one point. The aim is to produce a synthesis: a mixed style of management, taking the best from both sides. Mr In Kim says: "In Korea, when we work on a project, we ask how well the team is working. Here [in Berlin], individual ability is much higher, so the approach is more individual. Each concept has its strong and weak points."

One weak point, it seems, is Korea's traditional autocratic approach to management. Mr John Harkness, plant director of the North Yorkshire excavator factory, says: "Samsung is a huge company, with a huge bureaucracy; and yes, it's Korean. In the past its tendency was autocratic, but that's something the company is aware of and has discussed openly." In particular, he says, the Korean approach of vast plants run by management hierarchies is ruled out. Instead, the management structure is flat, and authority devolved.

At the Wynyard electronics plant on Teesside, there is no executive car parking, and management and workers share the same cafeteria. Everyone clocks in, including the Scottish managing director, Mr Danny O'Brien. There are no trade unions.

Creating an indigenous management style is important for another reason. As part of its objective of moving production from Korea, Samsung has ambitious targets for making its European operations self-sufficient.



An important motive is the need to respond fast to market changes. Mr O'Brien says: "It takes 45 to 50 days to move product from Korea. The response of the supply chain is critical to our success. The supply chain is also the biggest single element of our cost."

In the master plan, self-sufficiency comes in three distinct phases: people, materials and technology. Wynyard has 1,200 employees. Only 17 are Koreans, and the number is falling. For materials, Wynyard's colour TV manufacture takes 75 per cent of its supplies from Europe. For microwave ovens and computer monitors, the figure is only between 25 per cent and 30 per cent, but is due to climb to between 75 per cent and 80 per cent in the next 24 months.

Next comes self-sufficiency in technology and design. Wynyard, Mr O'Brien says, already has its own TV technology. In microwave ovens and computer monitors, it has engineering capability. The design of microwave ovens and computer monitors still comes from Korea, but will be transferred to the UK in the next 24 months to 36 months. In TVs, the mechanical design of the chassis is already UK-based, and electronics design will be transferred next year.

This all sounds perfectly logical. But what about Europe's notoriously high labour costs? In the extreme case of Germany, where Samsung's two main plants are in the former communist east, this is clearly an issue. In Berlin, total wage costs are $27 (£17.40) per hour. In Barcelona, the figure is between $13 and $14, and in Wynyard, $9 to $10. In Samsung's Korean operations the average figure is $10, and in Malaysia it is $3.

In Berlin, some of this is offset by productivity. According to Mr Kim, the plant produces 20 TV picture tubes per head for Korea's 15 and Malaysia's 10.

Quality still lags behind. Yield rates are at only 90 per cent of Korean levels. However, Mr Kim says, three years ago they were at only 70 per cent, and he aims to match Korea within two years.

In Spain, the picture is markedly better. The Barcelona plant claims to have the highest productivity in VCR manufacture anywhere in the Samsung group – some 5 per cent to 7 per cent higher than the nearest competitor. The defect rate of about 3 per cent is apparently similar to Korean levels. But then, the Barcelona plant began life as a greenfield site, as did Wynyard. The Berlin factory is more typical in one important respect: it was bought on the cheap, as a concern that was in effect bankrupt. So was the German TV glass factory in Brandenburg. The Rollei camera business, bought last year, had been bankrupt in the 1980s. Fokker, which it hopes to buy, went bust in March. Even the North Yorkshire factory now housing the excavator business was bought from the receiver.

On the same principle, Daewoo is buying Thomson's lossmaking consumer electronics business. In other words, Koreans work on the explicit assumption that they can succeed where Europeans have failed. It all sounds uncomfortably like arrogance; but it is in everyone's interests that they should be right.

'The main difference having a son as a partner is that you can't sack him'

PARTNERS

Clinton Cards

Don Lewin, 63, founded Clinton Cards in 1968. His son, Clinton, 35, became a partner on leaving school at 16. They now have 490 shops throughout the UK and an annual turnover of £110m. Next month, Don receives an OBE for services to the greetings card industry.

Don: "It was Clint's headmaster who told me he wanted to leave school and join the business. He wasn't interested in working for anyone else, as I'd suggested, so he started as a sales assistant. I've worked in every job in the company and I wanted Clint to do the same.

He's got a flair for the products which comes from following me around as a young lad of 14. He's made mistakes which we needn't have made, but then that's part of business – you don't always get it right. He once ordered too much merchandise from the Far East and by the time it arrived, two months later, it had missed the mark. When I started out I couldn't afford to make mistakes because every pound counted.

We don't always agree, but that's true of any business partnership. The main difference in having a son as a partner is that you can't sack him. He tends to want to run before he's walked, whereas I like to take a bit more time over decisions. I was a lot like him at his age, which is probably one of the reasons we disagree a lot.

I'm amazed at how much he gets around: one day he's in Scotland, the next day Devon. We have 4,000 staff, yet Clinton works harder than any of them. He's totally dedicated to the business which makes me very proud. If I had a criticism it would be what any father would say of their son: he should listen a bit more to his Dad."

Clinton: "Like a lot of sons I wanted to be around Dad, except he did retailing at the weekends instead of DIY and it became infectious.

Working with him isn't always easy. It can be difficult and frustrating, yet at other times it's enormously enjoyable. It's mixed emotions: I don't want to defy him because he's my father, but in business that sometimes can't be helped. I know I push him to the limit, whereas I wouldn't do that if he wasn't my Dad. He's certainly not easy to persuade so I tend to keep nudging him if there's a line I want to introduce which he isn't sure about.

What was unacceptable humour in his day is now part of our life and language today. Although our tastes may differ, we wouldn't sell anything that was offensive.

He's Gemini, so there are two sides to him: fun and grumpy. He's straight to the point; some might say blunt, but it's good to let people know how you feel. It also makes him an excellent negotiator.

Dad's wisdom and my youth have been a good combination for moving the company forward. I'm sure he's pleased that I joined the business, but there are times when I think, perhaps not. Ultimately it's what he wanted. He's worked very hard and achieved a lot, so he should relax more than he does and not involve himself in the little things that wind him up. He's a good, interesting guy to know, but there are times when I wish he'd chill out a bit."

Fiona Lafferty

Banker without a care in the world

Lucy Kellaway

Open letter to the chief executive of the Co-operative Bank.

Dear Terry Thomas,

What a brave man you are! If all bankers – nay, all businessmen – were as ethical as you, what a happy world this would be!

I keep a copy of your annual report on my bedside table alongside my recycled jar of Body Shop Vitamin E Night Cream. Those pictures on the front cover of naked smiling African children, and of sheep gently grazing on the unspoilt fields are really moving. They speak volumes about just how much you care about the world.

But it was the open letter that you sent to the heads of all British banks last week that has finally made me pick up my pen and write this open reply to you. I'm sure that all those s***s at Midland, Lloyds, etc have been too busy making money for their shareholders all this time to realise that landmines were dangerous. So well done you, for telling them!

I'm ever so glad that the Advertising Standards Authority has finally seen the light and allowed you to publish the ads that make your rivals look little better than Saddam Hussein. I'm impressed that you put aside so much valuable management time – that you otherwise might have wasted on your own staff and customers – to go snooping on Midland etc.

Yet the part of your letter that brought tears to my eyes was when you asked the banks "to put commercial rivalry to one side in the name of humanity". That really makes sense to me!! I did have one disloyal thought: that it was commercial rivalry that caused your sudden interest in landmines in the first place, but I have banished that idea as unworthy.

With endless admiration,

Lucy Kellaway.

PS My friend says your animal testing ads that are all over London at the moment are another example of your clever, if cynical, marketing tactics. She says she's quite happy with First Direct, which is efficient and polite, and not destroying the world any more than the rest of us. But I take no notice. She's always been a clever clogs!

Last week was a memorable one for women in business and finance. Marjorie Scardino made news by becoming chief executive of Pearson, while Mary Walz, who was sacked from Barings for her role in the bank's collapse, also made news when she claimed the £500,000 bonus she was promised the day before the bank fell.

The first has covered herself in glory; the second has met a more mixed response. Yet both have done things that women have either never done before or are not supposed to do. Scardino is the first woman to be made chief executive of an FTSE 100 company; Walz was alone among the largely male sacked Barings executives to have the stomach (or the gall) for a public fight. Not much sign there of the softer feminine management style we are always hearing about.

Scardino may be evidence that the glass ceiling no longer exists; Walz, that women can be even more pushy than men. However both are American, and they do things differently over there. In Scardino's case, American professional women have been climbing the ladder a bit longer, and are just a few rungs ahead of us. And as for Walz, being American means being more litigious. The approach may be alien to us, but it can get results. Just look at the bounty that fell on her countryman John Clark last week.

Sextant, the latest bit of management software, is designed to help companies improve their business strategy. I felt lukewarm about this product until I saw that it was being marketed as an alternative to hiring a management consultant. This is a stroke of genius by its creators, Ashridge Management College and software house, Softa. Expressed thus, the £7,500 that the package costs looks like a real bargain.

The reading matter a company displays in its reception is usually revealing. It says something both about the company and about how it views its clients. The standard corporate fare is part show-off, part advertising: a selection of glossy corporate literature nestling alongside the FT and The Economist.

Not, however, at the Cabinet Office. A colleague visiting there recently was surprised – though not displeased – to find a choice of Cosmopolitan, Marie Claire and Elle.

Reading about women's erogenous zones is given a certain extra something in those surroundings.

هكذا من الأصل

BUSINESS EDUCATION

Pick the best

Britain's business schools have voted to introduce a discriminatory accreditation system to distinguish between the best and the worst master of business administration (MBA) courses.

The move follows mounting pressure from prospective students and companies who often find it impossible to choose between the 110 or 120 courses now on offer.

The move is a personal triumph for Chris Greensted, director of Strathclyde graduate business school, and the new chairman of the Association of Business Schools, the trade association which voted in favour of accreditation at its annual general meeting last week.

However, delegates voted to look again at the details of the accreditation system which will be put into place by the association in conjunction with the Association of MBAs. This could delay the introduction of the scheme.

DB

Della Bradshaw charts an innovative alliance between school and company

A meeting of minds

In the first strategic partnership between a university business school and a corporate university, Boston College's Carroll School of Management and the Arthur D Little School of Management, also in Boston, have announced a merger of many of their postgraduate classes and their intention jointly to offer shorter executive courses.

The partnership could be just the first in its class. By the year 2000 one-third of corporations could be granting their own degrees in partnership with universities, according to findings from ADL.

Under the ADL/Carroll scheme, between 50 per cent and 70 per cent of the masters classes will be merged, says John Neuhauser, dean of the Carroll School. This will bring economies of scale for the business schools. But Neuhauser believes there will be numerous advantages for Boston's students as well.

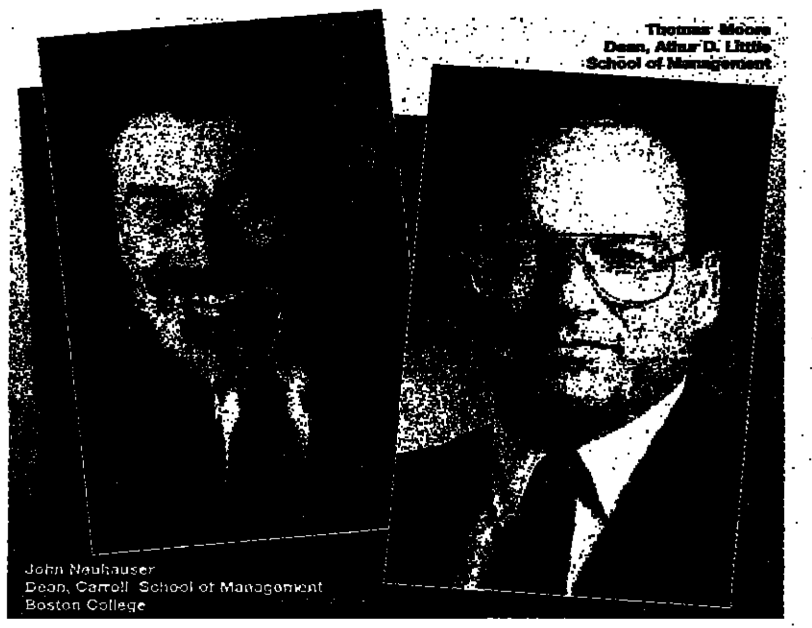
"ADL have a much better international outreach," says Neuhauser. "We have nowhere near that access to market." Neuhauser hopes that in future all his students will spend time overseas during their studies.

There will also be a better mix of students in the classroom – Carroll's students are largely from the US while ADL's are almost entirely from overseas. And students will be able to choose from a wider range of elective (optional) courses.

Neuhauser believes the two schools have differing strengths – ADL is good at information technology while Carroll is good at finance.

Although Carroll's 90 faculty are still cautious about the deal, Neuhauser argues that the access to overseas work and to an increased number of short courses – the ADL school has recently been given the contract to do all the in-house training for Arthur D Little worldwide – are powerful persuaders.

For ADL, the alliance strengthens the school's hand in its move to become a more mainstream business school. It has been offering a masters programme – though not an MBA – since 1973 and has recently become the first non-traditional business school to be a pre-candidate for accreditation by the American accreditation body, the American Assembly of Collegiate Schools of Business.



Thomas Moore, Dean, Arthur D. Little School of Management

John Neuhauser, Dean, Carroll School of Management, Boston College

"We are the only corporate university in the US that offers a degree and the only consultancy to have a business school," says dean Thomas Moore.

Moore's school has also filed to become a not-for-profit organisation although, as he is quick to point out, "there's a difference between being a 'for profit' organisation and being profitable. Certainly ADL has subsidised the school for the last decade."

The not-for-profit status should be in place by January, which will enable ADL to attend many of the recruitment fairs for management students. "In the past we've had one hand tied behind our back when recruiting top students," says Moore.

Moore says ADL has much to bring to the merger party. "We have insights and tools that a traditional business school does not offer, such as managing innovation and new product creation."

Neuhauser predicts that any problems will not be with the strategic issues but with the day-to-day ones, such as ensuring that ADL students can register on courses at Boston College even though they are not students there. "There'll be someone writing software at three o'clock in the morning on that one."

NEWS FROM CAMPUS

The battle of the old university ties

The Judge Institute at Cambridge University will offer a 12-month version of its MBA course from October 1997. Its present MBA is a 21-month sandwich course.

Judge faces increasing competition in the UK MBA market, notably from the management school at its old rival, Oxford, which began its MBA course this year.

Judge: UK, (0)1223 339700

Executives in Israel feel the crunch

The Kellogg school of management at Northwestern University has got together with the Leon Recanati graduate school at the university of Tel Aviv to offer an executive MBA.

The two-year programme begins this month and is intended for executives in mid-career. Managers from Egypt, Israel, Jordan and Palestine have enrolled.

The course will be taught largely in Tel Aviv but one module will take place at Kellogg.

Recanati: Israel, 3 640 8521

The latest way to strike a deal

The Columbia business school in New York has announced the opening of the Dow Jones Telerate trading room which provides students with a simulated trading environment for hands-on use of market data feeds.

While the facility itself accommodates 10 users, the school's local area network has been configured to enable students to to get access to the trading system through their laptops.

So far two courses have been designed to take advantage of the trading room system: the first in futures markets; the second in debt markets.

Columbia: US, 212 854 8162

Kirby gets the top job at Middlesex

Middlesex University business school in London has appointed David Kirby as dean and pro vice-chancellor. Previously he was professor of entrepreneurship at Durham.

Middlesex University: UK, (0)181 362 5000

CONFERENCES & EXHIBITIONS

OCTOBER 23-25
Institute of Personnel and Development National Conference.
People - The Key to Success
Firmly established as Europe's largest and most influential management event, this year's IPD National Conference will focus on 'people as the key to success', in ensuring organisations achieve a sustainable competitive advantage. Key themes include Strategic Direction, Reward Strategy, Managing and Developing People and Resourcing the Organisations of the Future.
Contact: IPD
Tel: 0181 263 3434
Fax: 0181 263 3366
LONDON

OCTOBER 28-29
Overview of the Treasury Function & Products
What is Treasury? What does it do? This course explains the function of a Treasury Operation and the Products available to the Treasurer to cover the risks arising in the Financial Markets. Identification, Evaluation, Management and Control. Look at the basic concept of financial risk and the Off-Balance sheet Derivative products available to a Bank or Corporate Dealer.
£520 + VAT 2 days.
Contact TFL/Training Dept.
Tel: 0171-606-0084/600-2123
Fax 0171-600-3751
LONDON

OCTOBER 30-31
Introduction to Swaps
* Interest Rate Swaps * Off Balance Sheet * Forward Forwards & FRA'S * Accounting Overview * Financial Futures * Securities & Interest Rate Swap related products * Implications of F/X & MM to Off Balance Sheet products * Currency Swaps * Warehousing * Internal Deals * Swap Process.
£425 + VAT 2 Days.
Contact TFL/Training Dept.
Tel: 0171-606-0084/600-2123
Fax 0171-600-3751
LONDON

OCTOBER 31
Introduction to Exotic Options
For staff moving into Trading or into Derivatives Trading Graduates. Middle Office and Trade Support Staff. Treasury Dealers moving into Derivatives. * A layman's guide to Exotic Options * Options Types * How they work and why they are used * Asian * Barrier Options * Look-backs * Practical Issues * Accounting Issues.
£325 + VAT 1 Day.
Contact TFL/Training Dept.
Tel: 0171-606-0084/600-2123
Fax 0171-600-3751
LONDON

OCTOBER 31 - NOVEMBER 1
Introduction to Leasing
A course designed for new entrants to the leasing industry or for general financial practitioners who need to be aware of the basics of off balance sheet, tax efficient structures.
• Tax Allowances and Corporation Tax • Documenting and Accounting for Leases • HP. Lease Transactions. Contract Hire Products
2 Days £595
Contact: Fairplace Tel: 0171 623 9111 Fax: 0171 623 9112 or for more information visit our world wide web site at http://www.fariplace.com or Email us at fairplace@fairplace.com
LONDON

NOVEMBER 4-5
Implementing Global Investment Strategy: Spotlight on Asia
Achieving superior portfolio performance requires not only the generation of good investment ideas but also the implementation of those ideas in an optimal, cost-efficient manner. Focus will be on managing Asia portfolios and implementing investment strategy in this region of the world.
Tel: 1(804) 980-3668 Fax: 1(804) 980-3634 E-mail: info@aimr.com
HONG KONG

NOVEMBER 4-6
Data Mining and Data Warehouse '96: Interaction of Information & Decision Technologies
The complex interaction of information and decision technologies and their application to business solutions are explored by NCR, IBM, SQL, ISL and SPSS, plus expert reviews and end-user case studies. Data Mining, Middleware, data cleansing, warehousing, EIS/OLAP tools: how can they support the information and analytic needs of the corporate decision maker?
Contact: UNICOM
Tel:01895 256484 Fax: 01895 813 095
E-mail: alec@unicom.co.uk
LONDON

NOVEMBER 5-6
Practical Dealing course - Money market
Training in traditional Cash markets and short term derivatives dealing - risk identification and evaluation, product pricing, position management - opportunities to test theories learnt in WINDEAL PC based dealing simulation and practical exercises. For Corporate treasury personnel and financial institution dealers. £520 + V.A.T.
Lywood David International Ltd.
Tel: 01959 565820 Fax: 01959 565821
e-mail: training@lywood-david.co.uk
LONDON

NOVEMBER 6
Dual Careers & International Assignments
As companies continue to expand internationally, so their requirement for expatriates is growing. However, working spouses/partners can present a barrier to international mobility. This conference presents new research and case studies of company policy and practice on how to reduce this problem and encourage mobility while addressing employees' family concerns.
Contact: Richard Spencer, CBI Conferences
Tel: 0171 379 7400 Fax: 0171 497 3646
LONDON

NOVEMBER 6-7
Putting Knowledge Management to Work
Karl Wiig (USA), Leif Edvinsson (Sweden), Annie Brooking, Ron Young (UK) and others, relate their experiences and discuss how to exploit the organisation's greatest assets: knowledge and IPR. Tools, techniques and case studies set against the corporate mission are presented as a practical guide: how to derive maximum benefit from "Knowledge Management".
Contact: UNICOM
Tel:01895 256484 Fax: 01895 813 095
E-mail: nina@unicom.co.uk
LONDON

November 8-
Networktool® & Global Heritage Bank
present
Creating and Preserving Wealth
"Belly to Belly" seminars presented by Keem Kalton and his Global Team. These seminars will help you learn more about the dynamics of money and community. Discover 21st Century Banking, our innovative concept where the profits are shared by those who perform. Exciting, lucrative, offshore compensation program. Learn about creating wealth, then share the knowledge with others for tremendous rewards. The knowledge is free...the city is a magnet...the setting is historic...the accommodations are a bargain...and you will benefit! $288 for 3 nights breakfasts & lunches, a gala dinner, welcome receptions, and all the seminars!!
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Email: dgracy@access.digex.net
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Major Credit Cards Accepted
Prague

NOVEMBER 12
EVA: An Integrated Management Framework for Creating and Enhancing Shareholder Value
An intensive one-day executive seminar led by two of the foremost authorities on shareholder value, Joel Stern and G. Bennet Stewart of Stern Stewart and Co. on the principles and applications of EVA. How to develop and implement a framework for financial management and incentive compensation using Economic Value Added.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
E.mail: roz.mcguinnes@business-intelligence.co.uk
LONDON

NOVEMBER 12-13
Key Operating and Investment Issues in Russia
Hotel Marriott, Vienna
For further information contact:
Ms Gerlinde De Leonardis
The Economist Conferences
Tel: +43 1 712 41 61 32
VIENNA

November 13
New Deal: Big Deal?- Changing employment relationships
The 'new deal' of flexibility and multi-skilling has replaced the 'old deal' of life-time employment - but is it really that simple? This seminar discusses whether the new thinking about employment relationships is working, with insights from companies already implementing 'new deal' programmes.
For HR directors, managers and those with responsibility for this key strategic issue.
£250 + VAT.
Contact: Helen Hannan
Tel: 0171 379 4411
Fax: 0171 379 7478
London *Towers Perrin*

November 13
Robert W. Fogel
1993 W Nobel laureate in economics and professor at the University of Chicago Graduate School of Business presents "The Bottom Line on Business Ethics: The American Experience and its Implications."
Following the lecture, information will be available about the University of Chicago's International Executive M.B.A. Program at Barcelona.
Time: 6.30 p.m.
Location: American Embassy, 24 Grosvenor Square,
To confirm your complimentary attendance at the lecture, contact Manny Enes:
Tel: 0171 409 2927
Fax: 0171 495 2944
London

NOVEMBER 13-14
Managing Private Banking Client Relationships
Developing and maintaining profitable private banking relationships.
• Client Profile Criteria, Information Gathering, Product Knowledge • Needs Identification, Inter-Personal Skills •Sales Initiative, Selling Skills, Negotiation • Customer Care and Quality
2 Days £595
Contact: Fairplace Tel: 0171 623 9111 Fax: 0171 623 9112 or for more information visit our world wide web site at http://www.fairplace.com or Email us at fairplace@fairplace.com
LONDON

NOVEMBER 15
UK and EU Competition Law: A Time For Change
CBI/Clifford Chance Conference includes speakers from Government, Labour Party and European Commission outlining views on proposed changes in competition policy. Speakers include: John Taylor, Margaret Beckett, John Kay, Jonathan Faull and Graeme Odgers. (Law Society Accreditation CPD: 5½ hours).
Contact: Richard Spencer.
CBI Conferences
Tel: 0171 379 7400
Fax: 0171 497 3646
LONDON

NOVEMBER 18
International Business and the New Rules of Trade
Conference addresses the future direction of the world trade agenda and key issues for the forthcoming Singapore ministerial meeting. Sessions include: expansion of regional trade pacts; international labour standards; international environmental regulation; cross-border competition policy and the future structure and remit of the WTO. Keynote: The Rt Hon Ian Lang MP.
Sharon Moore, RIIA on tel: +44 171 957 5700 or Fax: +44 171 321 2045
LONDON

NOVEMBER 19-20
Data Warehousing 96
Europe's premier conference and exhibition devoted to data warehousing and related issues. The multi-track conference explores critical, technical organisational and business success factors, including world-class speakers and case studies from the US, UK and Europe.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
E.mail: roz.mcguinnes@business-intelligence.co.uk
LONDON

NOVEMBER 25-26
Third Annual Global Emerging Markets Investment Management Conference & Companies' Forum
Major international conference looking at global emerging debt & equity markets. Featuring parallel streams on Asia-India Subcontinent, Emerging Europe & Middle East, and Latin America. Also features presentations by leading rating agencies together with workshops focusing on key emerging markets with company presentations & government speakers.
Contact: Corinne Paine, Dow Jones Telerate Tel: +44 (0) 171 832 9737 Fax: +44 (0) 171 832 9940
LONDON

NOVEMBER 26-27
Transforming the Finance Function: A New Way to Add Value to the Business
The future of many organisations rests with the finance department and its ability to service, supprot and, where appropriate, drive other parts of the business. This major conference provides practical strategies for finance executives taking on a strategic role in businss improvement
Contact: Roz McGuinness at Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
E.mail: roz.mcguinnes@business-intelligence.co.uk
LONDON

DECEMBER 2-4
Hungary Business Forum
Ramada Grand Hotel, Budapest
For further information contact:
Ms Angela Flaes
The Economist Conferences
Tel: +43 1 712 41 61 36
BUDAPEST

DECEMBER 3-4
Knowledge Management 96
Europe's first conference and exhibition focusing on methods, techniques and systems that will help companies turn knowledge management into a corporate resource for generating business advantage.
Contact Roz McGuiness at Business Intelligence Tel: 0181 543 6565
Fax: 0181 544 9020
Email: roz.mcguiness@business-intelligence.co.uk
LONDON

DECEMBER 3-5
Auditing the Dealing room (De-mystifying the Treasury function)
Three day training course designed specifically for internal auditors and financial institution inspectors charged with examining the on-going activities of their Treasury operation, covering cash and treasury derivative products dealing, limits/controls, elements of accounting and dealing management information. £725.00 + V.A.T.
Lywood David International Ltd.
Tel: 01959 565820 Fax: 01959 565821
e-mail: training@lywood-david.co.uk
LONDON

DECEMBER 11-12
Second Roundtable with the Government of Poland
Sheraton Warsaw Hotel, Poland
For further information contact:
Ms Gerlinde De Leonardis
The Economist Conferences
Tel: +43 1 712 41 61 32
POLAND

DECEMBER 11-12
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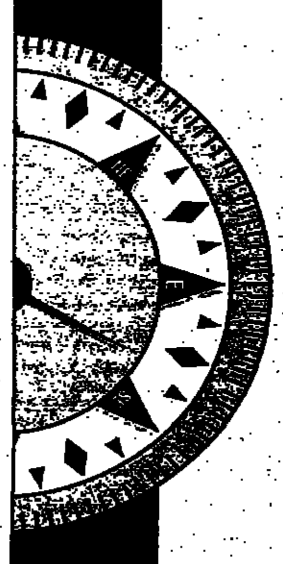

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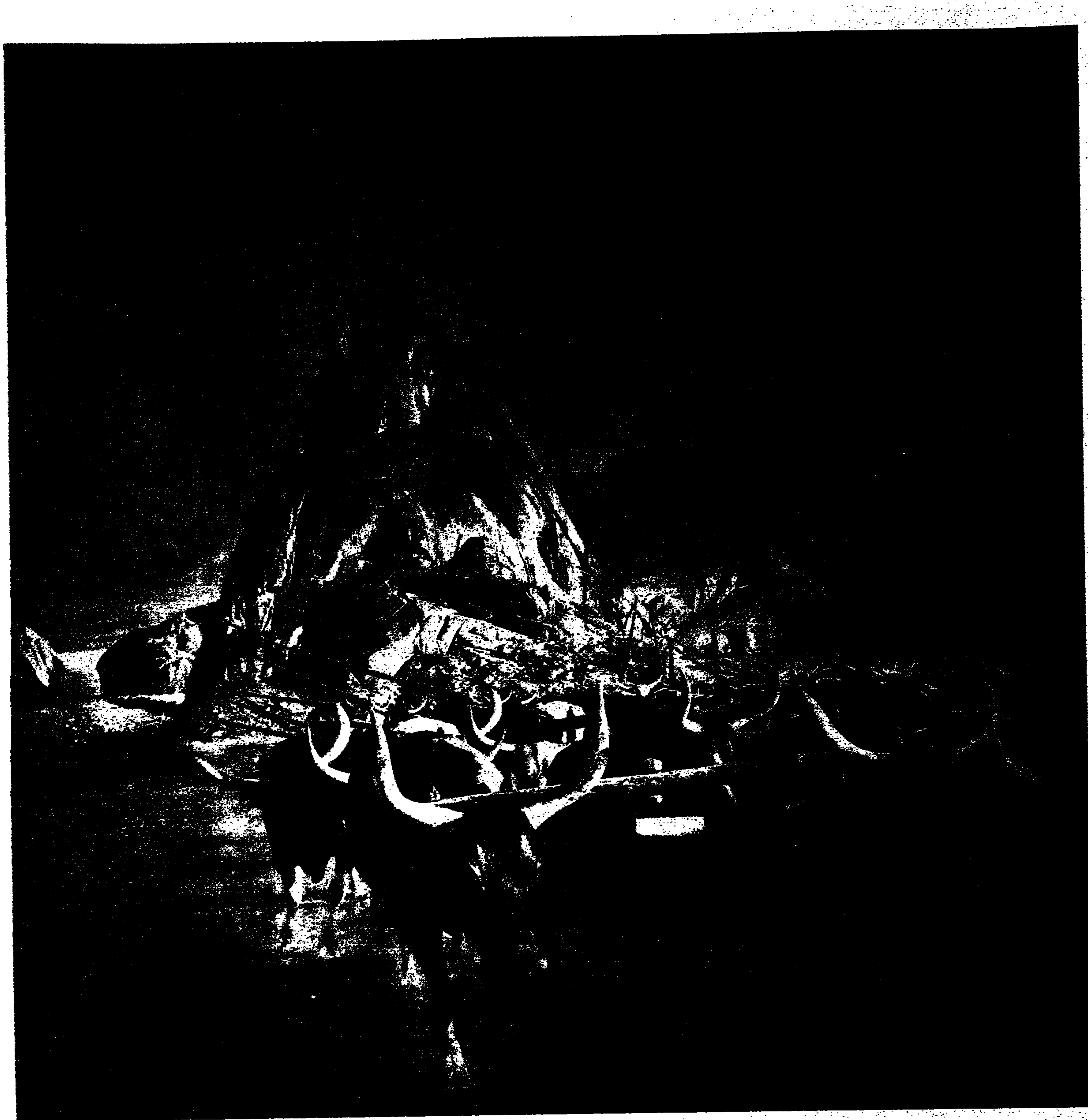


هكذا من الأصل

Michael Thompson-Noel • Sport

Not everything rosy at Manchester United

Eric Cantona (left) had a dismal day for Manchester United, who were beaten 5-0 by Newcastle yesterday

Manchester United's share price has been frisky of late. Perhaps I have lost the thread of this particular narrative, but against a 52-week low of 188p the club's share price recently hit a high of 595p, producing a *flurry of take-over rumours* – despite the fact that United, easily the biggest and most profitable of Britain's quoted football clubs, may be heading for the doldrums, soccer-wise.

As the *FT observed last* week, the likelihood of a bonanza in pay-per-view television revenues and other profits makes it easy to understand why a predator would be keen to buy Manchester United, even though speculation has made its shares look expensive.

However, what is intriguing is the possibility, so far not mentioned by the cream of Britain's soccer writers, that United – England's league and FA Cup champions – could be in trouble, and may have to spend large sums rebuilding its team.

(I had better declare an interest. I own no shares in Man Utd, but one of my pastimes – harmless, profitable – is sports betting. Shortly after the start of the season I invested a languid £100 at 13-8 on United to retain its Premiership title, the precursor, I imagined, of several bigger bets. Also, I offered certain persons – colleagues – good odds (7-2) against Newcastle winning the Premiership, and other good odds (22-1) against Newcastle winning the league-FA Cup *double. Those persons* weighed in heavily. All these bets of mine are looking daft.)

Perhaps United will soon shrug off its early-season stupor and incompetence, but *I suspect* that United's manager, Alex Ferguson, knows he has several expensive problems to mull and ponder. For a start, he may be wondering what possessed him to buy Jordi Cruyff and Karel Poborsky. Above all, Eric Cantona, United's poetic Frenchman, *looks a miserably spent fire*work.

At last Friday's closing price, Man Utd was capitalised at £337m. Before anyone thinks of paying over the odds for it, they ought to wait and see whether this prognosis is correct.

■ English racing is as good as they say it is. Excellent racecourses. Venerable races. Some top-notch horses. But it can also be pretty bad. Snobbish. Bureaucratic. Conservative. Amateurish. Farcical.

It was the farcical face of English racing that was to the fore at Haydock racecourse last week when racing was abandoned because 21 jockeys refused to ride in the second race, claiming the course had been made *dangerously slippery* by heavy rain. Minutes earlier, the stewards of the meeting had declared the course safe to race on.

You would think, would you not, that if 21 professional jockeys – *among them* some of Europe's finest, including Pat Eddery and Frankie Dettori – said the course was unsafe, the likelihood would be that the racecourse was, indeed, *not* safe to race on?

However, the jockeys were villified in terms that, once *again, spoke volumes about* the imperious mentality that still scars English racing, despite its claims to have modernised itself sufficiently to hold its own in the increasingly fierce struggle for sports fans' patronage.

Some of the things said about the jockeys beggared *belief. One owner said* he was "disgusted" with the little men. "Who is running the game?" he asked. His son said: "It's just mob rule. These jockeys are getting like footballers. They are just too big for their boots."

A trainer claimed the little men were "windy, gutless and over-paid", and added: "I can't believe racing was abandoned. If one of my apprentices had refused to race I'd have sacked him on the spot."

The *matter* has now been passed to the fragrant souls at the Jockey Club, whose grasp of public relations is often skew-whiff. So here, for their benefit, is £15,000 worth of free PR consul*tancy: 1) Send large bunches* of roses to each of the 21 little men, together with hand-written apologies. 2) Instruct all owners and trainers who were at Haydock last week to attend the next Haydock meeting, and to parade in front of the grandstand on hands and knees. 3) Fine Haydock's management £200,000 and give the money to charities that rescue racehorses from the knacker's yard.

■ Boxer Mike Tyson's four fights since his release from prison in March last year, *following a rape sentence*, have been such insubstantial affairs – lasting less than eight full rounds in total – that Evander Holyfield, who is due to fight Tyson for the WBA heavyweight title in Las Vegas on November 9, is having to work hard to stir interest in his long overdue meeting with Mighty Mike.

In his last fight, Tyson brushed aside Bruce Seldon in 109 seconds – adding to fans' displeasure with the heavyweight division. Naturally, Holyfield says Tyson has been overwhelming *rivals* who have neither brain nor brawn; and that he – Holyfield – is the one to change things.

Tyson was champion and Holyfield ranked No 1 when Tyson was knocked out in 1990 – his only defeat – by Buster Douglas. Then Holyfield and Tyson were to have fought in November 1991 when Holyfield was undisputed champion. But Tyson hurt his ribs in training and the fight was lost because of Tyson's trial.

"I don't care what someone has done to someone *else*," Holyfield said last week. "He hasn't done it to me."

Drumming up interest in his big pay-day with Tyson is one thing. But I have a feeling those words of Holyfield's will prove to be the 16 unwisest words uttered by anyone, anywhere, for any reason, in any language, this year.

■ Whatever Atlanta says or does, it will always be known as the city that staged one of the least satisfactory Olympic Games. And it still hasn't worked out whether its games this summer made a small loss, a small profit, or broke even.

The other day, US and international Olympic officials denied reports that Atlanta had suffered a large deficit on its botched games. They dismissed French news reports that said Atlanta had lost of tens of millions of dollars on its $1.7bn budget.

John Krimsky, deputy secretary-general *of the* US Olympic Committee, was upbeat. "I have a high degree of confidence that the games in Atlanta will show something other than a deficit," he said. "I think we will have some good news in December. *I* don't expect great news. But good news is anything black."

Colin Amery • Architecture

London's "tidal wave" of civilisation

There is a *tide* running through London at the moment – the tide of *civilisation*.

The flow begins at the Tate Gallery on Millbank, where an exemplary exhibition shows how classical civilisation was brought back to England in the luggage of the Grand Tourists. The river continues to run through the halls of the Royal Academy where the Living Bridges exhibition depicts how inhabited bridges can dignify and enliven the river.

In between the upstream and downstream Tate galleries lies another centre of civilisation currently in its first phases of renaissance – Somerset House.

Sir William Chambers, its architect, died 200 years ago and the anniversary is being marked with the house's largest architectural exhibition ever. It is a powerful experience to be in the main room of Chambers' best building and be surrounded by all the evidence of his powerful architectural *and political career*.

His life was far more remarkable than might be thought from his rather academic architecture. Born in Sweden to a Scottish merchant in 1723, he began training as an architect under the great Jacques-François Blondel in Paris at the age of 26. Chambers then spent five years in Italy, whereupon he was soon appointed architectural tutor to the Prince of Wales, the future King George III.

It was *his knowledge of things* Chinese that drew him to royal attention as well as his designs for a mausoleum for Frederick, Prince of Wales. In 1757 the dowager Princess of Wales asked the young Chambers to lay out the grounds of her house at Kew and embellish them with Chinese temples and the great pagoda. His Chinese-theme drawings, published in 1757 and on show in the current exhibition, must have made quite an impression at the *time as they were some of the* first views of China drawn by a western architect.

But Kew was more than just a few Chinese follies abandoned by the Thames – Chambers wanted it to be a walk-through world architecture. There were text-book classical buildings, Roman ruins, and Moorish, Turkish and Gothic buildings. The pagoda was then, and remains, the most ambitious Chinoiserie structure in Europe. On one side of the pagoda was the *Alhambra* vividly coloured and tiled and on the other a mosque with two minarets and a blue dome.

Chambers' sense of fun shown in these revolutionary royal buildings seems to have deserted him when it came to his important public works. He was appointed surveyor-general and comptroller to the Office of Works in 1782, and his vital work is the site of this exhibition: Somerset House.

The heart of the exhibition is in the Great Room, built for the annual exhibitions at the Royal Academy. In the centre of the room is a showcase of Chambers-*designed gold, silver and ormolu* – and it is ravishing stuff. The mixture of drawings, paintings, furniture, clocks and architectural models makes this one of the best architectural exhibitions for a long time. The rooms of Somerset House themselves look better than they ever have.

There is a unique opportunity to visit the Navy Stair on Saturday afternoons until the exhibition closes next January 5. The stair is in a seldom-seen part of the building, as it is still occupied by the Commissioners of the Inland Revenue. *This is one of* the most remarkable stairs in England, for it leaps across a circular space in a way that looks technically impossible.

هكذا من الأصل

BUSINESS TRAVEL

Travel News · Roger Bray

Supersonic start

British Airways may introduce ticketless travel on Concorde flights next year. The airline is already experimenting with the system, which does away with conventional paper tickets, on its Gatwick-Aberdeen route. The London-New York supersonic service has been earmarked for its first long-haul trial. Concorde, which attracts a high proportion of regular, sophisticated travellers, is seen as an ideal testbed.

Meanwhile the International Air Transport Association is on the point of announcing common industry standards for electronic ticketing.

First step

Beirut, patching itself up after years of civil war, is to get its first Holiday Inn. The 185-room Martinez is due for completion by the end of 1998 and promises a swimming pool, fitness centre, restaurants, an executive floor and extensive meetings facilities. The development is part of a long-term strategy by Bass subsidiary Holiday Inn Worldwide to manage 30 properties in the Middle East by the turn of the century.

Shopping spree

Transatlantic business travellers flying from the UK's Birmingham airport next month will get a £100 voucher to spend in the duty-free and tax-free shops.

To qualify, passengers must book a flight in the UK departing in November in British Airways' Club World cabin to New York or Toronto or an American Airlines business-class or first-class flight to Chicago.

The Midlands airport, which handled 5.45m travellers in its last full financial year, wants to make more business travellers aware of its US and Canadian links.

Regional rise

More travellers are hopping around Europe on regional airlines. Last year saw passenger growth of almost 13 per cent on such services. The first three months of this year produced a further 16 per cent increase. The figures are from the European Regional Airlines Association.

Aside from the post-recession increase in business travel, there are two main reasons for these impressive figures. One is the deregulation of Europe's air routes, the other the trend among big carriers to concentrate on the busiest routes while handing over the rest to franchise or code-sharing partners.

Route shake-up

To make way for domestic expansion, Deutsche BA, British Airways' German partner, will drop three lossmaking international services at the end of this month from its Munich base to Paris and Madrid and Berlin to Oslo.

Early next year it will launch flights from Munich to Hamburg and Cologne.

Greener hotels

Environmental awareness by hoteliers is not merely politically correct. It also saves a lot of money. Cuts in energy consumption at the Inter-Continental's 190 properties reduced the chain's costs by 27 per cent between 1988 and 1995. The Yokohama Grand alone has slashed its bill for hot water and other such essentials by $2.3m over three years, despite increasing occupancy from 56 per cent to 71 per cent.

So when you get ready for dinner, take a shower instead of a bath – and turn the bedroom lights off when you leave.

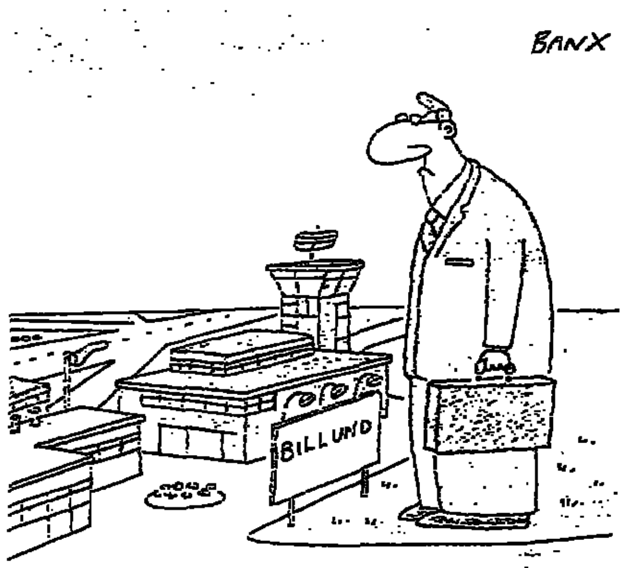
Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	19	20	21	21	22
Hong Kong	29	30	30	30	29
London	17	17	18	18	15
Frankfurt	15	16	18	18	16
New York	13	16	19	18	18
L Angeles	24	25	24	24	26
Milan	15	20	20	19	18
Paris	18	19	20	21	17
Zurich	13	14	17	17	14

Information supplied by Meteo Consult of the Netherlands. Maximum temperatures in Celsius

Amon Cohen on how Billund airport is successfully linking Jutland, home of the Lego Group, with the rest of Europe

Toy town grows up



Given a few hours and a bucket of Lego toy bricks, many a child has constructed an imaginary plastic airport. What few people know is that the Lego Group once built its own airport.

Lego is based in Billund, Jutland, the western part of Denmark. When the group expanded rapidly in the early 1960s, it realised its potential was being frustrated by poor communications. The nearest international airport was Copenhagen, a drive of nearly four hours, and Lego considered transferring to the Danish capital.

Instead, in 1962, Lego built an airstrip near Billund and bought an aircraft to fly its executives around Europe. Other businesses in the area saw what Lego had done, and with their lobbying the airstrip was converted into a large airport in 1964.

Today Billund is the second largest airport in Denmark, despite the fact that the town's population is only 8,000. However, the catchment area includes much of Denmark's industry, and there are more than 3m people living within 75 minutes' drive of the airport.

Passenger volumes have increased rapidly in recent years as a result of aviation liberalisation within the European Union. In 1992, the passenger total was 1.2m. This year it is expected to reach 1.9m, about 325,000 higher than last year's figure.

Of that number, half are flown by Maersk Air, which serves Copenhagen, Stockholm, London, Amsterdam, Brussels, Paris and Frankfurt. Maersk also flies to smaller places in Scandinavia and to the Faroe Islands, whose airport has the shortest runway in the world that is served by a regular Boeing 737 service.

Maersk has just relaunched its business class. It has installed leather-upholstered seats, in an effort to distinguish its premium product from its economy class. Seat pitch is 33in – generous by short-haul standards – and there are only five seats in each row, compared with six in economy.

Denmark's largest airline after SAS, Maersk has seen its fortunes improve along with those of the airport it dominates, and turned in a profit of DKr150m (£16m) in 1995. Maersk is owned by the private A.P. Madder Group, the largest company in Denmark and one of the world's three largest shipping businesses.

Like Billund, Maersk has thrived on deregulation and the freedom to open new routes within the EU. In 1993 it became the first EU airline to take 100 per cent control of a carrier in a member state when it bought the UK's Birmingham European Airways, now a British Airways franchise. It also recently took a 49 per cent stake in Estonian Air.

There is a handful of other scheduled carriers at Billund, including Norway's Braathens SAFE, but early next year Maersk's position is due to be challenged seriously for the first time. SAS has announced that it will start flights to Frankfurt from January 6, and has scheduled its two daily departures only 10 minutes apart from those offered by Maersk.

The plot thickens when it is realised that Frankfurt is the main hub of SAS's new partner, Lufthansa. Alliances thrive by finding sufficient small routes along which to drive passengers on to arterial long-haul services – so it would seem that even Billund is to be affected by the realignment of the world's airlines.

According to Jorn Eriksen, Maersk's senior commercial vice-president: "No doubt there is going to be price competition and excess capacity."

As competition intensifies, Billund has plans for expansion. Unfortunately, it will not be possible to extend the existing terminal, which would disturb the sacred burial ground of King Amlet. Instead, it has been decided to build a new terminal, which is due to open in 1999.

Downtown, with an armed bodyguard

Advice for visitors to Johannesburg can make scary reading. Motorists, for example, are sometimes told that police are unlikely to treat someone who drives at high speed through a red light harshly if they were in fear of their lives.

It is tempting to ignore the advice. After all, from the comparative safety of your car during the day, Johannesburg looks like any city. But one of the less palatable consequences of the collapse of the apartheid regime has been soaring crime: Johannesburg has the dubious distinction of being regarded as one of the world's most dangerous cities.

Yet overseas arrivals continue to grow as both tourists and business travellers benefit from the return of South Africa to the world community. According to Satour, the tourist authority, the number of visitors, including business travellers, rose 52 per cent in 1995 compared with the year before.

In fact business travellers are unlikely to stay in downtown Johannesburg. Rising crime has prompted businesses to move to the safer northern suburbs of Rosebank and Sandton. There are hotels downtown that still cater for business travellers – one, The Carlton, will, on request, provide an armed bodyguard for its guests. And, despite the flight from the centre, financial institutions still have bases downtown. The stock exchange is also located in the heart of the central business district.

Control Risks, the UK security consultancy, advises that it is reasonably safe to walk around the central business district by day, but that it should be avoided after 6pm.

Grant Gordon, a director of William Grant & Sons, the Scotch whisky distiller, says the area becomes "eerie" later on. "I stayed in one of the big downtown hotels about three years ago and I remember stepping out into the street in the evening and finding the place empty. I didn't want to stay downtown again."

Like most business travellers, he now stays outside the city. "We've done what most people have and decamped to Sandton – it's a very pleasant place, there's lots of activity in the evening. You can really feel very isolated if you stay downtown."

For those businesses that have stayed put in the city, security is comfortingly draconian. Access to a building is often via a guarded parking lot, and visitors are subject to a second check at the lift area. Even restaurants have similar barricades.

One thing that has improved for business travellers to South Africa is the international connections. As Gordon remarks: "It's much easier to get in and out of South Africa. I can now plan trips to Australia via South Africa, and you can flick across to South America."

The downside, according to Kyle Davis of travel group American Express, is that business class airfares to South Africa from the UK are rising more sharply than overall prices out of the UK.

Until recently only British Airways and South African Airways flew from the UK to Johannesburg. The arrival of Virgin Atlantic has not, as yet, exerted any downwards pressure on fares.

Another downside for the business traveller is pressure on the airports. Tara O'Connor, Africa analyst at Control Risks, says that many South Africans prefer to commute from Durban or Cape Town to Johannesburg. As well as the sheer numbers, the airports are also affected by crime. However, policing has been stepped up markedly, and a barrier just inside the terminal building prevents anyone who is not a passenger getting too far inside the airport.

"You could be paranoid and stick to the supersafe option," says O'Connor, "by staying in your hotel, eating in its restaurant." But, as Gordon remarks, with South Africa emerging as an important market for consumer goods, "you can't afford not to be there".

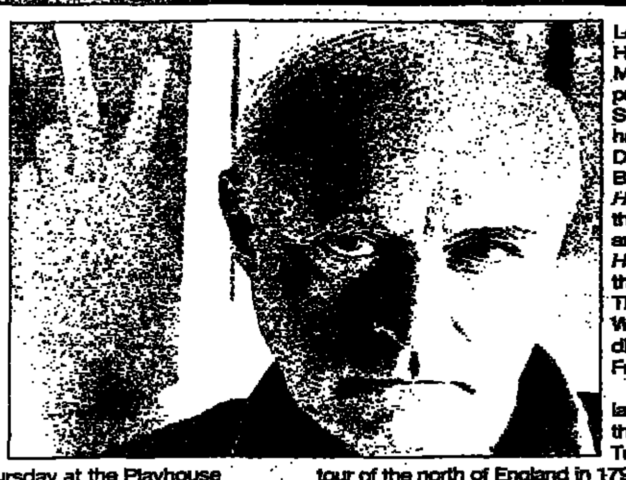
Kate Bevan

ARTS

OPENINGS

HOUSTON
Daniel Catan's opera *Florencia en el Amazonas* receives its world premiere at the Wortham Center on Friday. The opera, about a singer who journeys up the Amazon in search of her long-lost lover, is part of Houston Grand Opera's *programme of new* works aimed at American minorities. Sheri Greenawald stars in a staging by Francesca Zambello (right).

LONDON
The still audacious and authoritative Edward Bond (right) directs the British premiere of his own play *In the Company of Men*, which *opens in RSC* repertory tomorrow at The Pit. The cast is led by George Anton and David Ryall.
Janet McTeer is Nora in a new version of Ibsen's *A Doll's House* by Frank McGuinness. Opening on Thursday at the Playhouse Theatre, it is directed by Antony Page. The cast also includes Owen Teale and John Carlisle.



London's latest Hamlet is Michael Maloney. His many previous Shakespeare roles have included the Dauphin in the Branagh film of *Henry V*, and – with the RSC – Romeo and Prince Hal. This *Hamlet*, opening at the Greenwich Theatre on Wednesday, is directed by Philip Franks.
The Tate Gallery's latest exploration of the work of J.M.W. Turner focuses on his tour of the north of England in 1797, when he was 22, which had an influence on his creative output for the rest of his life. The exhibition opens tomorrow.

BIRMINGHAM
As part of celebrations marking Copenhagen's year as cultural *capital of Europe, the Danish* National Radio Symphony Orchestra visits the UK this week with its chief conductor, Ulf Schirmer (above). The tour opens on Friday at Birmingham's Symphony Hall, and features symphonies by two Danish composers, Nielsen and Bent Sorensen.

PARIS
The Opera Ballet presents a triple bill which includes Ashton's *Rhapsody*, his first work to be staged by the company. Agnes de Mille's *Fall River Legend* and Lifar's dazzling *Suite en blanc* complete the programme on Thursday at the Palais Garnier.

ROTTERDAM
A retrospective of the English ceramicist Martin Smith (b. 1950) opens at the Boijmans Van Beuningen Museum on Saturday. Smith has developed a reputation for assembling cut-up forms into pots whose shapes challenge traditional ideas about modelled ceramic vessels.

VIENNA
The Viennese premiere of Verdi's *Stiffelio* takes place on Saturday at the State Opera, in *Elijah* Moshinsky's (below) production from Covent Garden. The cast is headed by Jose Carreras, Mara Zampieri and Renato Bruson, and the conductor is Fabio Luisi.

Junk bond ballet

Tracy Corrigan reports on the background to an avant-garde interpretation of the rise and fall of Michael Milken

There are two schools of thought on Michael Milken, the king of the 1980s junk bond market. The first is that Milken helped his greedy, often rather talentless cronies to strip the assets of established companies without regard for either the letter or the spirit of the law, making himself one of the richest men in America in the process. When he was eventually prosecuted and sent to prison, he got what was coming to him.

Then there is the revisionist history: Milken's espousal of junk bonds – bonds issued by companies with lowly credit ratings – gave small entrepreneurial companies real access to capital for the first time, enabling them to bid for bloated blue-chips. His achievement was the democratisation of capital, no less, and his subsequent downfall was the wrath of the establishment descending on a social upstart.

There is truth in both these readings of events. But I was surprised that Karole Armitage's *The Predators' Ball*, an avant-garde "multimedia" ballet based on the 1988 book by Connie Bruck and performed last week at the Brooklyn Academy of Music, so wholeheartedly espouses the revisionist version. Her treatment of her subject is usually sympathetic and at times almost reverential in tone.

Armitage's Milken is a rather cold but brilliant visionary. His IQ is unmeasurable. He is likened to Copernicus and Luther. His only problem is "a discipline so intense that it takes over his life". At worst, he comes across as a junk bond nerd who just got carried away.

This seems rather too generous a reading of events. True, Milken was not your average sleazeball. He didn't smoke, do drugs, drink alcohol or even coffee or carbonated drinks. But he was a *bond salesman*, for God's sake. At his annual junk bond shindig – the eponymous "Predators' Ball" – one executive was charged with ensuring that clients were surrounded by attractive girls, paid "varying amounts, depending on how pretty they are and what they'll do", according to a source in Bruck's book. Armitage's ballet conveys little sense of the palm-greasing and back-scratching which were part of the *modus operandi* of Milken's junk bond and leveraged buy-out markets.

He is likened to Copernicus and Luther. His only problem is 'a discipline so intense that it takes over his life'

Milken was the driving force behind the creation of a $100bn junk bond market out of virtually nothing, in the process reviving the flagging fortunes of his firm, Drexel Burnham Lambert, which he joined in 1970. Junk bonds came into their own in the 1980s, when they financed some of the largest corporate takeovers in history – known as leveraged buy-outs because of their heavy reliance on debt financing. Milken was indicted in 1989. In 1990, following the collapse of the junk bond market, Drexel was forced to declare bankruptcy.

Much is made in the ballet of Milken's evangelical zeal. This is well documented. Bruck says he credited himself with having "led the revolt of an underclass to scale the walls of corporate America and depose the rich, credentialed and powerful". One may not shed tears for the Wall Street elite whose franchise he stole, nor for Armitage's "blue-bloods at blue-chips" who were paid off handsomely when their firms were bought out. But it is difficult to feel enthusiastic about those he empowered – mostly a motley crew of opportunists with shady business practices and blemished histories.

Finally, there is the issue of Milken's criminality. The most vehement apologists for Milken, like Daniel Fischel in his 1995 book *Payback: The Conspiracy to Destroy Michael Milken and his Financial Revolution*, believe quite simply that Milken did nothing wrong. Some think he was a victim of anti-Semitism. Fischel describes what happened to Milken as worse than the McCarthyism of the 1950s. That some powerful interest groups were not displeased by Milken's removal from the scene is indisputable. But he gave his enemies plenty of ammunition. Insider-trading laws are notoriously ill defined – Fischel argues unnecessary – but even ignoring the insider-trading charges, the fact remains that Milken got rich, in part, by ripping off his clients: investors, who were sold bonds at less favourable prices than his own investment partnerships; and companies, who were forced to offer Milken warrants in exchange for placing their bonds. Hardly the stuff of which heroes are made.

But that is how Armitage appears to perceive Milken. If the references to classical Greek tragedy are meant to be ironic, then she should have been tougher on him. In Armitage's ballet, if Milken oversteps the mark, it is through excessive zeal. He is driven, like the heroes of the Greek classics she suggests, to a tragic destiny by this single flaw.

In fact, Armitage's vision is quintessentially American, not Greek. She cannot help but admire Milken as a self-made man, a doer, an incarnation of the American dream. The problem with her characterisation of him is that Michael Milken is interesting for what he did rather than who he is. He was a great salesman, and he changed the face of corporate America. But personality? Moral substance? Not really. The story of Milken's deals and dealings *made a great book, but not a great ballet.*

Dance critic **William Deresiewicz** questions the choreographer's perspective

Fewer markets, more movement

Karole Armitage and Michael Milken, 1980s icons in their respective spheres, have this in common: neither exhibits much in the way of a moral imagination. Milken, famously, knew not what he did. And Armitage knows not what he did either.

The Predators' Ball certainly pretends to important judgment. A smirking, silver-suited god and a hip-hop chorus, together with much loose talk about Destiny and Fate, represent the choreographer's attempt to appropriate the meanings of Sophoclean drama.

But the narrative is so clumsily handled that the grandeur of Milken's insane ambition gets frittered away in facile explanation.

The problem with the production is neither the improbability of its conception, nor the aggressively pop-cultural manner of its treatment: with the second of these I certainly have no quarrel. Milken and his stiff-suited kind may have had little in common with the rappers and break-dancers and party-kids through whose music and dance Armitage sets out to tell his story, but the conflation is persuasive and, in the first ten minutes at least, effective. For all their differences, the markets and the clubs belonged to the same world. The markets produced the money that fed the clubs; the clubs produced the culture that eroticised the markets. The common denominator, as Armitage knows, was style: speed, loudness, propulsive thrust; arrogance, cynicism, an inventive kind of cunning.

When she manages to keep the elements in synch, her hip-hop bond-trading and techno-pop Congressional testimony give visceral form to desperate, blind desire. But for the most part, she does not manage to keep them in synch. Chunks of turgid exposition alternate with equally turgid chunks of dance.

On the one hand, Armitage delivers her arguments in brute monologic form: a video voice-over about Milken's genius, a tirade from the man himself on his "democratisation" of the bond market. On the other, she seems largely oblivious to the metaphoric implications of her appropriated styles. Much of the dance material takes the form, not of hip-hop at all, but of ballet, a genre without discernible relevance to her subject.

To be fair, the production is not without its pleasures. If nothing else, Armitage knows how to put movement together. The dancers of MaggioDanza di Firenze, where she serves as director, brought off her handsome, slashing combinations with tireless precision and chic. Best of all was the voguer Stanley DeVaughn, a paragon of cool sexuality and serpentine grace.

But the divorce of story and styles points to the production's central problem. Armitage achieves no perspective either on her material or on her methods.

Daniel Pirrie and Adam Chalk as wealthy teenagers on trial for murder Alastair Muir

Theatre/**Sarah Hemming**

Motivations for murder

On my way out of *Never the Sinner* I bought a newspaper reporting a judge's verdict on a boy who stabbed a London headmaster. On the train home, the woman opposite me was reading a book entitled *Children who Kill*. Certainly, John Logan's play about the infamous Chicago killers, Leopold and Loeb, is nothing if not topical.

Logan's 1985 play (revived at the Arts Theatre, London in a remarkably smooth production by King's College School, Wimbledon) has two strands to it. It is a psychological whydunnit and a piece of campaigning drama. On the one hand, it takes the case of the two "thrill-killers", the wealthy teenagers Richard Loeb and Nathan Leopold who murdered a 14-year-old boy in 1920s Chicago for no apparent motive, and explores their relationship and their motivation. On the other, it examines the reasoning of the fine attorney, Clarence Darrow, who took on their defence, pleading them guilty but arguing that the death penalty should not be applied.

By twisting these two strands together, Logan plays the boys' apparent callousness off the lawyer's compassion to get to the nub of Darrow's argument: that mercy, rather than vengeance, should guide the application of law. In his summation, forcefully arguing that the two should not be hanged, he states "I know the future is with me, and what I stand for here." The irony in Logan's play, of course, is that, in the writer's native America, Darrow's confidence in a future without the death penalty has only partially been borne out.

The play is the stronger for not romanticising the two boys. They come over as arrogant, spoilt and foolish. But behind their explanation, that they killed their victim as an "experiment" driven on by a misguided application of Nietzschean philosophy, Logan detects a complex web of passionate feelings. Richard Loeb emerges as an incomplete person – rich attractive, popular – yet driven by fantasies and a desperate desire for control; Nathan Leopold as the loner who fuelled Loeb's fantasies with his adoration and sexual obsessiveness. As one of the psychiatrists remarks, individually neither would probably have committed the murder, but together they galvanised each other towards destruction.

It is a slick, well made play, flipping in and out of the courtroom, using flashbacks to draw us into the boys' behaviour and employing a gaggle of reporters to suggest the intense excitement of the people of Chicago over the case. The dialogue sports some clunking clichés ("Boys, I got the rest of my life," says Darrow, when one of them asks him how much time he has), but the play still grips.

The young company, directed by Philip Swan, give it a polished production, crowned by two convincing performances from Adam Chalk as the slight, withdrawn Leopold and Daniel Pirrie as the charming, effervescent Loeb; and a touching one from Christopher Day as the great attorney whose wisdom moves him to condemn the sin but "never the sinner".

Arts Theatre, London WC2 to November 2 (0171-836 3334)

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Nederlands Kamerorkest: with conductor Hartmut Haenchen and violinist Shlomo Mintz perform works by Bartók, Beethoven and Mozart; 8.15pm; Oct 26
● Symphonieorchester des Bayerischen Rundfunks: with conductor Lorin Maazel perform works by Beethoven and R. Strauss; 8.15pm; Oct 22

ANTWERP

DANCE
De Singel Tel: 32-3-2483800
● Nuit: a choreography by Mathilde Monnier to music by Cage, performed by the Centre Chorégraphique National de Montpellier. Soloists include Lluis Ayet Puigarnau, Seydou Boro and Germana Civera; 8pm; Oct 22, 23

BARCELONA

EXHIBITION
Christie's Barcelona Tel: 34-3-4878259
● Modern and Contemporary Art from the 19th Century: exhibition at the Hotel Husa Palace, marking the launch of Christie's new office in Barcelona. The works on display will be auctioned in London in November and December. Artists represented include Meifrén, Renoir, Sisley, Vuillard, Leger, Rothko, Tàpies, Saura, de Staël, Fontana and Soulages; from Oct 21 to Oct 22

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Ensemble UnitedBerlin: with conductor Shao-Chia Lü and soprano Michiko Hirayama perform works by Yun, Scelsi and Kubo; 7.30pm; Oct 24
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Breslauer Kammerorchester Leopoldinum: with conductor Stefan Bevier, violinist Viktor Kuzniecow and soprano Celestina Casapietra perform works by Vivaldi, Tosti, Verdi and Puccini; 8pm; Oct 22

CHICAGO

THEATRE
Steppenwolf Studio Theatre Tel: 1-312-3351888
● The Viewing Room: by Rubin. Directed by Anna D. Shapiro, performed by the Steppenwolf Studio Theatre. The cast includes Paul Adelstein, Heidi Mokryeki and Darryl Alan Reed; Wed - Fri 7.30pm, Sat 4.30pm & 8.30pm, Sun 2.30pm (Oct 27: 6.30pm); from Oct 27 to Nov 24 (Not Mon)

COPENHAGEN

DANCE
Det Kongelige Teater Tel: 45-33 69 69 69
● Hamlet: a choreography by Peter Schaufuss to music by Sort Sol and Langgaard, performed by the Royal Danish Ballet and the Royal Theatre Orchestra; 8pm; Oct 23

FESTIVAL
Copenhagen Cultural Capital '96 Tel: 45-33 77 96 33
● Copenhagen Choir Festival: fourth edition of this festival featuring more than 25 concerts taking place in the heart of old Copenhagen. The festival focuses on choir music from the 20th century and music for choir and instruments. The Phoenix Chamber Choir will officially open the festival with a concert at The Danish National Radio Concert Hall on October 24 (8pm), followed by a performance of Carl *Orff's Carmina Burana, led by* conductor Michel Tabachnik; from Oct 22 to Oct 27

DUBLIN

EXHIBITION
National Gallery of Ireland Tel: 353-1-6615133
● William J. Leech (1881-1968), an Irish painter abroad: a retrospective exhibition of works by William J. Leech. It brings together more than 100 works and explores the artist's drawings, watercolours and paintings, most of which are in private hands; from Oct 23 to Dec 15

LISBON

CONCERT
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131
● Renata Scotto: performance by the soprano, accompanied by pianist Edelmiro Arnaltes. The programme includes works by Gluck, Handel, Bellini and Rossini; 7pm; Oct 22

LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● Grant Maintained Schools' National Orchestra and Choir: with conductor Robert Pepper and percussionist Evelyn Glennie perform Heath's African Sunrise and Manhattan Rave; 3.30pm; Oct 26
Wigmore Hall Tel: 44-171-9352141
● Felicity Lott, Ian Bostridge, Matthias Görne, Robin Blaze and *Graham Johnson: the soprano,* tenor, baritone, countertenor and pianist perform works by Britten, Schubert, Wolf and Poulenc; 7.30pm; Oct 24

EXHIBITION
Victoria & Albert Museum Tel: 44-171-9388500
● Green Furniture: Ecological Design: this display, featuring furniture made of recycled post-consumer waste, recyclable virgin materials, or materials from sustainable sources, shows the possibilities for industrial mass production combining contemporary aesthetics with ecological responsibility; from Oct 22 to Apr 13

MADRID

CONCERT
Auditorio Nacional de Música Tel: 34-1-3370100
● Royal Philharmonic Orchestra: with conductor Xavier Güell perform Mahler's Symphony No.9; 10.30pm; Oct 22

NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● New York Philharmonic: with conductor Herbert Blomstedt and pianist Kristian Zimmerman perform works by Bruckner, Hindemith and Brahms; 8pm; Oct 24, 25 (2pm), 26

EXHIBITION
The Equitable Gallery Tel: 1-212-554-4818
● Henri Cartier-Bresson in *America: exhibition devoted to* photographs taken in the US by the French photographer Henri Cartier-Bresson. Comprised of more than 100 works selected by Cartier-Bresson, the exhibition spans four decades, from 1935-1975; to Nov 2

PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Orchestre Nationale de France: with conductor Jeffrey Tate and soprano Barbara Hendricks perform works by Mozart and Berlioz; 8.30pm; Oct 26

SAN FRANCISCO

OPERA
Bill Graham Civic Auditorium Tel: 1-415-861-4008
● Carmen: by Bizet. Conducted by Donald Runnicles, performed by the San Francisco Opera. *Soloists include Olga Borodina* and Philip Skinner; 7.30pm; Oct 22, 25

VALENCIA

CONCERT
Palau de la Música i Congressos Tel: 34-6-3375020
● Mario Monreal: the pianist performs Beethoven's Sonata *No.30 in E major, Op.109, Sonata* No.31 in A flat, Op.110 and Sonata No.32 in C minor, Op.111; 8.15pm; Oct 22

VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Wiener Symphoniker: with conductor Rafael Frühbeck de Burgos and pianist Rudolf Buchbinder perform works by Mozart, Beethoven and Brahms; 7.30pm; Oct 22, 23, 24

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10.00
European Money Wheel

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Financial Times Business Tonight

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COMMENT & ANALYSIS

Michael Prowse · America

The case for Dole

The US electorate has underestimated the political skills and personal qualities of the Republican candidate

A late surge in support could yet carry Mr Bob Dole to a surprise victory on November 5. But the odds seem strongly to favour a second term for President Bill Clinton.

The case against Mr Dole seems clear-cut. At 73, he is said to be too old to be president. He is supposedly out of touch with voters, especially baby-boomers. He is often tongue-tied, a sin in an age that expects the president to be "communicator in chief". He is said to have a confused legislative record. He reputedly lacks compassion, as illustrated by his support last year for the "extreme" social policies of the Republican Congress. His plan to cut taxes is supposedly inconsistent with his record as a deficit hawk. He is accused of "lacking a vision" for the 21st century.

That the public may view Mr Dole negatively is not wholly surprising if you consider that the Washington press corps voted overwhelmingly for Mr Clinton in 1992. One of the obstacles facing Republican candidates is the Democratic bias of nearly all the opinion-forming groups, including journalists, academics and teachers, the publishing industry and Hollywood. Yet Mr Dole has strong claims to the presidency that are often overlooked.

He is undeniably old, yet he seems energetic and mentally alert. Politicians of his age have served with distinction in other countries. If age is a handicap, it lies in Mr Dole's conception of masculinity, which dates from the Ernest Hemingway and Humphrey Bogart era when heroes were strong, silent and uncomplaining. Mr Dole, one suspects, has nothing but contempt for Mr Clinton's loquacious sermons – and those watery-eyed displays of emotion that help the president "bond" with voters.

Mr Dole, it should be remembered, has really suffered. His bravery on an Italian battlefield led to horrific wounds. He spent years in hospital and had to learn again how to walk, dress and feed himself. His disabilities are still painfully evident. His shrivelled right arm hangs limply at his side, the useless fist clutching a pen. To recover and rise to the top of the Senate required a rare courage. Yet rather than admiring Mr Dole and forgiving his dark, ironic wit, the public seems embarrassed by his injuries. It finds Mr Clinton's bouncing health and bonhomie more comforting.

What of Mr Dole's policy record? The claim that he lacks compassion does not stand scrutiny. Yes, he was one of 12 Republicans who voted against the creation of Medicare, the healthcare scheme for the elderly. Yes, he opposed the creation of a federal education department. But he has backed many programmes for the genuinely disadvantaged. In the 1970s he worked with George McGovern, the leftwing Democrat, to expand the food stamp programme and to extend social benefits to poor women and children. He started his own foundation to help the disabled and worked to pass the Americans with Disabilities Act in 1990.

What Mr Dole has fought against is unnecessary bureaucracy (education is primarily a state, not federal, responsibility) and wasteful "entitlement" programmes that benefit the middle and upper classes as well as the poor. He supported the means-tested medical schemes that preceded Medicare: had the US remained on that road, it would have had smaller budget deficits.

And he played a leading role in the 1980s in curbing and reforming social security, the federal pension programme. In 1985 he put economic principle ahead of politics in pushing for a cut in benefits; Democrats cynically exploited the Republicans' sense of responsibility (just as they did last winter on Medicare) and won control of the Senate the following year.

Mr Dole's tax-cut plan is a departure from his history of fiscal orthodoxy. But given the Democratic lead in the polls this summer, a political gamble of some kind was surely justified. Contrary to the hype, the cuts would amount to only 1 per cent of national income and could be offset by spending cuts. Mr Dole's true fiscal priority is his promised constitutional amendment mandating a balanced budget – a reform vetoed by Mr Clinton last winter.

The best-informed judges are often our peers. On this criterion Mr Dole scores high marks. Before resigning this summer, he had served a record 11 years as Senate majority leader. If the US had a parliamentary system, he would have been prime minister twice. Senators from both parties – including leftwing Democrats – speak warmly of his personal integrity and unrivalled capacity for bridging party differences. He is liked and admired by most people who know him well: something that cannot be said for Mr Clinton. If the Senate, rather than the people, voted for president, pundits have speculated that Mr Dole would win a majority even among Democratic members.

Unlike Mr Clinton, Mr Dole does not wave a laundry list of government schemes. He does not have a slick pseudo-solution for every problem. He does not ooze compassion and promise to mend every hurt. He is not cloyingly sentimental. What he offers instead – on a very modest scale – is a return to the virtues of the founding fathers: self-reliance, hard work, personal responsibility, less government.

He is far more likely than Mr Clinton to act firmly to slow the growth of entitlement programmes such as healthcare and pensions – something that most economists agree is now an urgent priority. And in an age of moral and cultural decline, his life and conduct present a better example for young people than Mr Clinton's. In the sound-bite era these virtues perhaps make him unelectable; if so, it is America's loss.

Role-models for Dole? Hemingway (left) and Bogart

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Water's future is with equity

From Mr Nicholas Hood.

Sir, Of course your short leader "Ebb tide" (October 15) cannot avoid generalisations about the privatised utilities, including water. In the privatised water industry the record of most investment outside the water and waste water business, which is regulated, has been poor – but it is still wrong to lump them all together.

Wessex Water has consistently made a profit, and a growing profit, from its investment in a solid waste business – UK Waste – and the money to buy the business was raised from shareholders with no impact on our regulated activities.

We have been consistent in seeking to provide the best service we can to the customers of our regulated business and I have said again and again that "without satisfied customers in the regulated business we shall have dissatisfied shareholders and staff as well as unhappy customers".

God forbid that we follow the last suggestion in your leader and "swap equity for fixed interest or other forms of security". We would be back to the bad old days of the public sector with no incentive to reduce costs that, under the present sound system of regulation, eventually emerges as lower charges to customers.

Please do not allow the more spectacular problems of poor diversification, interruptions of water supply and even reward for poor performance to executives to obscure the remarkable transformation of an industry from the public to the private sector. This transformation has enabled regulators to deliver and the customers to enjoy far higher standards of service at ever-reducing costs and, were it not for the £27bn of capital spending required, the industry's charges would be lower than inflation. I recall the old attitudes of the public sector where changing people in changing governments and changing civil servants were unable to manage the industry. The industry then seemed to play the game of seeking as much capital as possible, reducing costs as little as possible and policing its own standards as gently as possible.

Privatisation, with customers' charges capped, has worked, and must be allowed to continue to flourish. So please let no-one be tempted to substitute equity with fixed interest securities for water utilities.

Nicholas Hood, chairman, Wessex Water, Wessex House, Passage Street, Bristol BS2 0JQ, UK

A price that is not worth paying

From Mr D.A.A. Fagandini.

Sir, By dismissing your leader in true managerial fashion (Letters, October 15), the director-general of the Institute of Directors has brought into the open the real nub of the argument about Emu.

Gone are concerns for UK sovereignty, the supremacy of parliament, the deep-seated concerns of the public. In their place we have the freedom of any UK chancellor to set our interest rates. And in this context, "interest rates" are surrogate words for devaluation.

Mr Tim Melville-Ross, brandishing the very latest OECD and International Monetary Fund reports, waves aside the decades during which the international value of sterling has been on a consistent slide and implies that this must continue – there is no hint of a trend reversal – if the UK economy is to flourish. There is no recognition that the OECD and IMF reports reflect the determination of the UK chancellor to adopt the conditions of the Maastricht treaty pertinent to Emu, nor that our freedom to diverge from them on the sidelines might not be worth having because of the inflationary consequences.

Your admirable leader of October 14 says all that needs to be said by those who take seriously the formidable interests at stake. The one note of sadness I detected was that, like all our other institutions, Europe's most powerful financial centre had also missed its opportunity to participate fully and constructively in an "historic process". The irony of this will come home to us when the very machinery of the City is deployed by investors the world over to ensure we abide by it.

D.A.A. Fagandini, 8 Alleyn Park, Dulwich, London SE21 8AE, UK

Simply another way to keep score

From Mr Peter Smith.

Sir, I would like to add to the notes of caution about the economic value added approach sounded in these columns in recent weeks. Although it is useful as a way of focusing management attention on the fact that capital is not free it has several limitations as a true measure of shareholder valuation creation.

Mr Antill (Letters, October 18) has correctly pointed out some of the dangers of using a single period measure of performance in the context of value creation which must, by definition, take into account the long-term impact of present actions. A second and more serious problem relates to the selection of the capital base in the calculation. To create value for shareholders in a given period a company must earn a return greater than the cost of capital on the market value of the company at the beginning of the period. No amount of adjustment of the accumulation of sunk costs in the balance sheet can systematically reflect a market value which is based on future expectations.

It does not provide the strategic or operational insight necessary. It is simply another way to keep score. For those who wish to help their companies create and sustain more value for shareholders there are, unfortunately, very few short cuts. The infusion of shareholder value principles throughout all levels of an organisation can indeed transform performance, but adding up the old numbers in new ways is not the solution.

Peter Smith, partner, The LEK Partnership, 1-11 John Adam Street, London WC2N 6BW, UK

A place so reminiscent of England

From Mr Martin F. Arias.

Sir, In an article titled "Pulling out – the final chapter?" (October 5/6), Stephen Fidler attempts to describe life in Panama, the latest locale for a John le Carré novel, as a place where "the concept of conflict of interest – the idea that business and politics should be separate – has almost no resonance". Such an observation appears to more appropriately describe the British parliament in light of recent revelations that many MPs diversify their income by serving as "consultants" to leading corporations with an interest in pending legislation.

Mr Fidler also asserts that "Panama's small ruling elite is related and has gone to school with those to whom they are not related." It would appear that just about the same thing could be said of any self-respecting English blue-blood who has attended a "public school". I can only conclude that Mr Fidler seems to understand Panama so well because it fits the British mould of democracy so snugly.

But do not take my word for it. In a recent article in the New York Times Magazine, Mr le Carré wrote: "As I listened to one horror story after another about high-level Panamanian corruption, I found myself nodding in silent recognition, and thinking: Quelle Angleterre." Mr le Carré went on to describe his purpose in writing his latest novel: "But most of all, I wanted [my readers] to dream that they have been in Panama. Then to wake up and realise they had been in England all the time."

Martin F. Arias, One Liberty Plaza, New York, NY 10025, US

A striking resemblance

From Mr Christopher Carr.

Sir, Re your report "Land Rover to produce 'baby' model" (October 16), I was most interested to see that the new vehicle will look exactly like the Subaru Legacy my wife already has. Another British "innovation", or simply artistic licence?

Christopher Carr, Geneva, Switzerland

Personal View · Scott Ratzan

An end to the madness

The 'mad cow disease' hype in the media must be stopped by the UK government

It has been six months since a UK government report suggested that bovine spongiform encephalopathy (BSE) or mad cow disease – a disorder prevalent in British beef – could be transmitted to humans.

The report initiated a media frenzy which crippled the British beef industry and sparked questions on the safety of the food supply throughout the world. This has escalated to become "the biggest crisis the European Union had ever had", according to Mr Franz Fischler, European agriculture commissioner.

However, few challenged the veracity of the claims or the quality of evidence. While the UK government tried to calm food-related fears, the EU banned British beef products. Policy focused on doing "something" – rather than doing the "right thing".

The saga highlights the difficulty of accurately communicating and disseminating health information. Even after years of public discussion on BSE and Creutzfeldt-Jakob disease (CJD), a similar disease in humans, misinformation continues to dominate the discourse. The power of the rhetorical repetition of BSE as simply "mad cow disease" permeates the public, fostering an erroneous conclusion that humans will get "it" from eating meat from cows or sheep and lambs.

Different groups shirk responsibility. The medical community calls mad cow disease a veterinary issue. The veterinarians say it is a government and public health issue. The government, having no clear communication strategy, acknowledges it as a scientific dilemma and blames the media. The media is keen to report it while the political and medical reporters vie to write the lead story. All this makes good copy.

Meanwhile, UK and Swiss farmers watch as their herds are prematurely culled and demand for beef diminishes. And French cattle farmers block roads and march their "healthy" cattle around the Eiffel Tower to protest against falling beef prices.

Today there are fewer "mad cows" than when the UK government's report was released, but the same mystery shrouds the unaccountable human deaths. Europeans are consuming one-third less beef, while the verifiable facts suggest that only cows die of mad cow disease.

> What gets lost is the public's right to know the facts before accepting the fallacious claims that grab attention but fail to meet the rest of sound logic

There has yet to be a single documented case of CJD from eating beef, lamb or related dairy products. Similarly, prions – the theorised infectious agent in cattle – has never been identified in any meat for human consumption.

Nonetheless, in an effort to ease concern that the same thing could happen in the US, the Centers for Disease Control and Prevention issued a statement earlier this year which was heralded in a lead story in the New York Times. It read: "There is no evidence that anyone in the US has died of the 'mad cow' disease that has killed eight people in Britain, the Centers for Disease Control and Prevention said today."

A similar statement could be made anywhere in the world, given its inaccurate implication of causation. The only proven victims of mad cow disease are the cattle it infects, as the pejorative name suggests.

Unfortunately, discovery of information, specifically scientific and medical breakthroughs, does not occur overnight in a way that fits neatly into succinct stories or the soundbites preferred by the popular media. Although there has been a fourfold increase in medically related news in the New York Times during the past two decades, we are all limited on where to find the best and most accurate information.

The 25,000 scientific and medical journals which are published throughout the world do not inform us, nor do our healthcare providers; we still get about 85 per cent of our health information from non-medical sources.

As we rely on governments to provide accurate health information, the reality is that we have a knowledge deficit. Instead, tabloid television, talkshows and other forms of "infotainment" fill the knowledge gap. What gets lost is the public's right to know the facts before accepting the fallacious claims that grab attention but fail to meet the test of sound logic. The result is an absence of public confidence.

Few would argue with the proposition that accurate information presented objectively and ethically is needed to make the best decisions in health and other vital areas of life. Advocating such an approach unites all of us dedicated to the art of effective health communication.

But without clear leadership from the government, there is no alternative but to look to the media and all those who are involved in the discovery and dissemination of health-related information to make this a reality. They must rise to the task and serve as an ethical compass in helping the public to digest such material as part of its daily diet.

If neither the government nor the media begin to think of the consequences of the laisser faire approach to communicating health, a similar disaster lurks on the horizon.

The author is editor-in-chief of the Journal of Health Communication and director of the Center for Ethics in Political and Health Communication at Emerson College, Boston

FINANCIAL TIMES

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Monday October 21 1996

A maritime law becalmed

There can be few instruments of international law which have so much potential to do either good or harm as the United Nations Convention on the Law of the Sea, which a newly established court based in Hamburg is supposed to interpret.

If the best intentions of its drafters are fulfilled, the convention will uphold freedom of navigation, promote conservation, and facilitate rational international co-operation in the management and use of maritime resources. In an ideal world, coastal states would see the 200-mile economic zone, to which they are entitled by the treaty, as an area of responsibility where they must control pollution and exercise restraint in mining and fishing, rather than as an opportunity for quick profit.

Moreover, given that claims to economic zones are doomed by geography and geology to overlap, the court inaugurated in Hamburg last week would seem an ideal forum in which to settle disputes. Governments constrained by powerful nationalist constituencies at home ought to find it easier to defer to a universally respected tribunal on matters of maritime rights than to make unilateral concessions.

In practice, however, the treaty seems to be having the very opposite of a benign effect in many parts of the world, from the Aegean to the Pacific. Because the possession of islands has become a crucial factor in determining the extent of a country's fishing and seabed mining rights, bitter international disputes are flaring over the ownership of obscure mid-ocean outcrops which would otherwise be of little interest.

The two most dangerous disputes concern the potentially oil-rich Spratly islands, claimed by six countries, and the islets in the east China sea where the activities of Japanese nationalists have triggered a wave of anti-Tokyo sentiment in Taiwan and Hong Kong as well as China.

These conflicting claims to little-known archipelagos are, in turn, one of the factors behind the naval arms race in which virtually all Asia-Pacific countries are engaged. As coastal states with booming economies, they are suddenly entitled to defend the freedom of navigation in which all trading nations have a vital interest.

But if the emerging Pacific powers are acquiring large fleets to fight for, and fence off parts of the ocean, that is a counter-productive enterprise whose human and economic costs will far outweigh any benefits. It would also be entirely foreign to the spirit, if not the letter, of the UN Convention on the Law of the Sea.

Equity cultures

When the British government was preparing in 1984 for the initial sale of shares in British Telecommunications, nobody knew how many first-time private investors would buy. But the government's advisers could at least take comfort from the fact that the culture of the British capital markets was heavily biased towards equities. Germans, in contrast, prefer bonds. Could the enthusiasm shown by private investors for the forthcoming Deutsche Telekom issue herald a change of habit?

Quite possibly, because there is more going for equities in Germany than just the privatisation programme. Deutsche Bank's recent decision to set up an independently funded pension scheme points in the direction of an increased institutional appetite for ordinary shares. With a rapidly ageing population, Germany can no longer afford its very generous social security system, and others are likely to follow the Deutsche Bank example.

Yet a change in the method of financing cannot, in itself, make a huge difference to the size of the pensions bill. The advantage in funding lies more in its ability to legitimise the division of resources between workers and pensioners.

The development of an equity culture ultimately depends, though, on the relative performance of bonds and equities, and to a lesser extent on tax and regulation. If German insurers more than halved their holdings of equities between 1970 and the mid-1980s, it was because bonds outperformed as the Bundesbank established its credibility in the markets.

If monetary union brings higher rates of inflation, that trend will reverse. A change in the tax reliefs that favour the book reserve system against funded pensions might also tilt the balance a bit. Yet the present attraction of Deutsche Telekom shares for private investors lies largely in a yield that looks good against bonds. Unless they are worried about inflation, a rising share price and falling yield may simply lead to profit taking and more bond buying.

Budget blues

It might be called the Dorneywood twostep. One forward, one back, turn around, face your partner. Then say: "No Ken, we just can't do it."

The pre-Budget get-together of Treasury ministers and officials this weekend at the official country residence of Mr Kenneth Clarke, the UK chancellor, can hardly have gone with a swing.

It is easy to see why public expenditure should go up, even if an election were not in prospect. The case for a modest rise, for example, in the health service is hard to resist. And the squeeze on public-sector investment since 1993 is beginning to tell. Private Finance Initiatives which the government hoped would shovel £14bn into the investment gap this year, have so far provided only half that.

The government is facing public pressure for improved services, which reflects quite reasonable aspirations. As national income expands, people may well want to spend an increased proportion of the country's income on teachers and doctors. Health spending, for example, is still a relatively modest 5.6 per cent of national income compared to 4.6 per cent in 1979. This is low by the standards of other advanced economies.

But flip the chart and you see quite another picture. Total government spending this year is likely to be some £27bn more than revenues. This deficit, at 3½ per cent of national income, will be more than the entire defence budget.

From every perspective the deficit is too high. The UK is well into a recovery phase, with unemployment falling, perhaps close to a level at which inflationary pressures will revive. Conservatives and the Labour party agree that over the full economic cycle borrowing should be brought down. The so-called "golden rule" – that government borrowing should not exceed public investment – would suggest a deficit of no more than 1 per cent of national income.

Raising taxes is off the agenda, at least until after the election, so the burden of an urgently needed adjustment is falls on spending programmes.

But since health, education and welfare payments now account for 66 per cent of government expenditure, the scope for making significant cuts is limited, especially as many of the obvious economies have been made in the past three years. Rightwingers may dream of taking a machete to the social security budget, but the political arithmetic is fearsome. Each 1 per cent cut in the welfare budget represents a £1,000 drop in living standards for 1m people.

So if those at Dorneywood were disposed to raise their glasses to another term of Tory rule, it will not be one in which public expenditure falls much below the present level of about 43 per cent of national income. Radical thought would be required to curb the growth of welfare payments or pay for more services out of income rather than taxes.

For the present, Mr Clarke can only hope the deficit will go away as output rises. However, the effect of economic growth on government revenues is unlikely be enough to balance the books until the turn of the millennium. So he must at least hold the line on spending. And he must absolutely refuse to lead the nation in a tax cutting-dance, for the music will stop as soon as the votes are counted.

A deficit of credibility

Stephanie Flanders casts doubt on the efforts of Italy, Spain and Portugal to be ready for the single European currency in 1999

International intrigue, wounded pride and accusations of financial skulduggery at the highest levels of government: in the past six weeks the race to European economic and monetary union (Emu) has become a highly charged political drama.

France and Germany's struggles to make it to Emu on time have filled the headlines for some time. The new twist to the story has revolved around events further south, among the so-called "Club Med" countries. Although Italy, Spain and Portugal have always said they planned to qualify for Emu, few analysts ever considered them likely candidates for the first round, due to start in January 1999.

Mr Romano Prodi, Italian prime minister, last month made an effort to be taken more seriously. He presented a budget for 1997 tailor-made to meet the Maastricht treaty criterion that requires countries to keep general government borrowing below 3 per cent of gross domestic product. Spain and Portugal have since announced Emu-inspired budgets of their own.

No sooner had they outlined their plans than officials in the "hard-core" countries – those thought most likely to be first into the single currency – began muttering about southern members getting above themselves. Mr Jacques Chirac, French president, expressed doubts about Italy becoming a founder member of Emu. In Germany, Mr Hans Tietmeyer, the Bundesbank president, warned against countries meeting the criteria "in a breathless short-term effort" that could not be sustained.

Financial markets seemed more impressed. Italian long-term bond yields now stand only 2½ percentage points or so above German ones, nearly 1 point lower than at the start of last month. This implies a sharp fall in investor perceptions of the risk attached to lira assets. The premium on Spanish and Portuguese bonds has narrowed by roughly the same amount, to about 1½ percentage points.

But even if the ambitious new targets are met, it may be tricky for the Mediterranean countries to persuade their northern colleagues that the improvement will last.

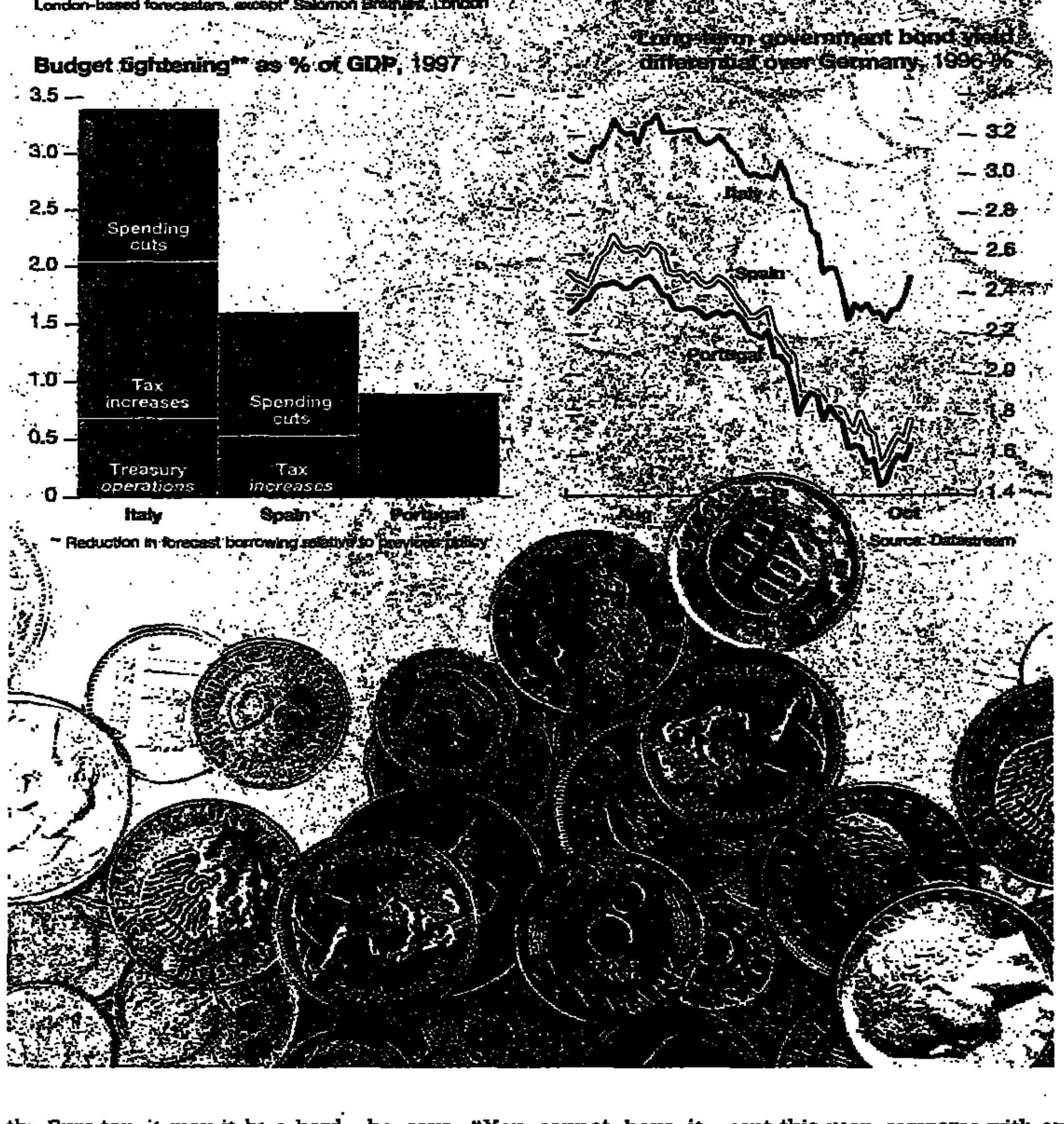
Italy has the hardest task: the state budget deficit is expected to be close to L130,000bn (£54.18bn) – or 7 per cent of GDP – this year. Mr Prodi's budget promised to reduce state borrowing by L62,500bn next year to meet the Maastricht target.

The headline figure was an impressive step up from the L32,500bn tightening the government had forecast in July. But only 60 per cent of the reduction will be part of the 1997 budget law to be passed by parliament over the next few months. This comprises about L35,000bn in spending cuts and L12,500bn in measures to raise revenues.

Emu and the Med: the race for acceptable numbers

	Forecast real GDP growth, 1997			General government borrowing as % of GDP, 1997		
	Market forecast (Aug)	Latest official forecast	Market forecast (Oct)	Market forecast (Summer)	Government target	Market forecast (mid-Oct)
Italy	1.9%	2.0%	1.7%	5.8%	3.0%	4.5%
Spain	2.8%	3.0%	2.6%	4.0%	2.9%	3.5%
Portugal	2.7%	2.7%	2.7%	3.3%	3.0%	3.1%*

Growth forecasts are average of European economists polled by Consensus Economics. Deficit forecasts are average of 6 leading London-based forecasters, except* Salomon Brothers, London



** Reduction in forecast borrowing relative to previous policy

Source: Datastream

The remaining L25,000bn, made up of one-off measures devised to meet the Maastricht criteria, will probably materialise only early next year. They include a L12,000bn "Euro-tax" on personal incomes and L13,000bn of "treasury operations".

Mr Prodi himself has accepted that the latter are pure "window-dressing" for the purposes of the Maastricht entrance exam. As for the Euro-tax, it may it be a hard task to raise the equivalent of 6 per cent of this year's personal income tax revenue from it.

Mr Prodi is hoping to get additional help from reduced debt servicing costs and faster-than-expected economic growth. Unusually, the budget does not allow for a continued decline in short-term interest rates; Italy's very high stock of debt – forecast to be about 123 per cent of GDP next year – means that a 1 percentage point fall in the interest rate on government debt should reduce borrowing by nearly 1 per cent of GDP within two years.

Betting on faster growth, however, seems over-optimistic. Mr Giorgio Radaelli, senior economist at Lehman Brothers in London, thinks the extra deficit cuts could make it hard for Italy to meet the government's 2 per cent growth forecast for 1997, let alone exceed it.

"The government is promising nearly double the amount of fiscal tightening as in the July budget plans at the same time as saying that growth will be the same as it previously expected," he says. "You cannot have it both ways: either the cuts will be achieved, and the growth will be slower, or investors won't believe the cuts are credible."

Spain's economic forecasts have also been criticised. The draft 1997 budget aims to reduce the general government deficit to the magic 3 per cent of GDP (from a forecast 4.4 per cent this year) through faster growth and Pta1,200bn (£6,153m) in budget savings.

Spending cuts make up two-thirds of the package, centred around a freeze on public-sector wages and employment and cuts in subsidies to industry. Although there are questions over the government's ability to implement fully the measures, most have judged the package more credible than Italy's, if only because Spain is closer to the Maastricht target.

Whether the package proves adequate will depend on what the deficit turns out to be this year and on the pace of economic growth in 1997. The government's forecast of 3 per cent growth next year, up from a forecast 2.3 per cent this year, compares with an average independent forecast of 2.8 per cent.

Portugal likes to think of itself as the dark horse of the Emu race. Extensive budget cuts in recent years have left the government forecasting a deficit of 4 per cent of GDP this year.

Last week the government began discussing how to achieve the further cuts needed to reach its 2.9 per cent target. While the Portuguese seem to have avoided blatant window-dressing, the cuts have fallen more on areas that are easiest to squeeze in the short term, such as infrastructure, than on long-term problem areas such as social security.

Such shortcomings are hardly in the same league as the creative accounting of France, Italy and others in their new budgets. But they are likely to be seen as a symptom of the same, short-termist approach to Emu entry by the officials in Brussels and at the European Monetary Institute in Frankfurt who will evaluate progress towards meeting the Maastricht targets.

The greatest obstacle faced by the three Mediterranean countries in qualifying for entry is demonstrating that next year's budget cuts, however large they turn out to be, are more than one-year wonders.

For Italy, Mr Riccardo Barbieri, an economist at Morgan Stanley in London, reckons that significantly less than half of the forecast L62,000bn reduction is structural: without another round of cuts, the deficit will go up again after next year.

The package includes only a little over L7,000bn in cuts in health and social security. Yet it is widely accepted that budget reforms in these sectors will be crucial to cracking the Italian budget problem in the long term.

As for next year's Spanish budget deficit, roughly two-thirds of the expected decline is structural, according to economists at Salomon Brothers in London. Other, one-off, measures for 1997, such as re-jigging the collection of corporation tax, could simply shift the budget burden into the future, raising the deficit by an additional half a per cent of GDP in later years.

Both Spain and Portugal have relied heavily on reduced subsidies to state companies to deliver their 1997 forecasts. Unless the cuts are combined with concerted efforts to boost efficiency, this will just shift state enterprise losses "off-budget" – and, possibly, outside the general government deficit on which the Maastricht treaty focuses.

These and other worries about long-term sustainability are likely to feature in discussions at the European Monetary Institute as it prepares to report on efforts to meet the convergence criteria. The preliminary findings, due next month, will be the first official assessment of EU members' progress toward Emu since the new budgets for 1997 were announced. Mr Tietmeyer's comments suggest the authors will be under pressure from Germany and other "hard-core" stalwarts to be unsparing in their assessments.

For their part Spain and Portugal will want the institute to judge them by their economic progress, not their location. Both fear being placed in the same "problem" category as Italy, despite their lower debt and public borrowing. Mr José María Aznar, the Spanish prime minister, went to Bonn last week to make this point in person. He was immediately followed by Mr Prodi, equally keen to dispel doubts that Italy could deliver.

In promoting their cases, all three can show that the latest budgets follow several years of efforts to cut government borrowing and improve economic policy generally. Much of the recent decline in their government bond yields may be more a belated recognition of this progress than a bet on them entering the single currency in 1999.

On present reckoning, the Club Med offensive will not be enough to secure them a place in Emu in 1999. But it has made it harder to count them out over the long term.

Additional reporting by Peter Wise, Robert Graham and Lionel Barber

· OBSERVER ·

Reds are not yet dead

■ Whoever said that socialism was dead? Even as free-marketeers proclaim the final demise of the collectivist project, the Socialist International – a loose and diverse bunch of left-of-centre movements – goes from strength to strength.

At a recent conference in New York, hardly the incubator for things socialist, the number of full members swelled from 64 to 80; the ranks of parties enjoying observer or consultative status increased by 27.

Admittedly, not all members of this revolutionary brotherhood paint themselves a very deep shade of red. The newly elevated full members, who include the Nicaraguan Sandinistas and the all-important Social Democratic party of Mongolia, will be taking their places alongside such stalwarts of mild reformism as the German Social Democrats, the New Zealand Labour party and Britain's Labour party.

The very latest to be admitted as associates of the pinkish-red fraternity is the Citizens' Union of Georgia.

Two members of that troubled country's ruling party last week brought a message of fraternal greetings to the organisation's London headquarters from president Eduard Shevardnadze. The niceties of stakeholding and empowerment might seem rather academic in a country recently ravaged by civil war. But officers at the International were impressed by the enthusiasm and extreme youth of the envoys.

Like most of their party's parliamentarians, they were in their mid-20s. "Shevardnadze prefers to work with young people because we have less to unlearn," said revolutionary envoy Irakli Gogava.

Golden oldie

■ Switzerland has a 22-carat dilemma. It urgently needs to find someone willing to chair its investigation into the hunt for all that looted Nazi gold still hidden in the country. The job is a delicate one; done properly, it could help Switzerland refurbish its battered international reputation, but done badly and it will increase the country's isolation.

There are several serious Swiss historians, such as Jakob Tanner and Georg Kreis, who are experts on this murky period in Switzerland's past. But they may be ruled out on the grounds fresh minds need to be brought to the subject.

Beatrix Mesmer, a history professor at Berne, has also been mentioned. She has the advantage of being Jewish and she's recently retired, suggesting she could find the time for an investigation which might take five years.

But some Swiss believe the job's too important to be left entirely to their compatriots. The argument goes that if Swiss bankers can persuade Mr Paul Volcker, former US federal reserve chairman, to help sort out their row with Jewish organisations over the fate of dormant bank accounts, surely the Swiss government can find a foreign dignitary willing to lend a hand.

One name mischievously touted is Baroness Thatcher. She's always been a big fan of Switzerland. And she wouldn't put up with any nonsense from people like Alfonse D'Amato, the chairman of the US senate banking committee who's been making life such a misery for the Swiss.

Bruised fruit

■ Life can be tough for Caribbean banana producers. If it's not leaf fungus, hurricanes or European insistence on the right length, colour and curvature, it's US politics.

The problem is an attempt to allow bananas grown in Latin America by American interests to muscle in on a European market traditionally carved up among former European colonies.

Unfortunately for the Caribbean growers, the US company Chiquita – along with Carl Lindner, the Cincinnati millionaire behind it – have friends in high places. Chiquita, the world's largest banana trader, has hedged its bets and financed both Democrats and Republicans ahead of the US election. Dole and his campaigners have used the Lindner family's private planes so much that he's been dubbed the "banana republican".

"The US of course, like the European Union, only believes in free trade up to a point: "We tried a few years ago to export bananas to the US and our containers sat on the wharf," says Marshall Hall, chief executive of Kingston-based Jamaica Producers Group. "The bananas turned to vinegar."

So Jamaica Producers is diversifying into less controversial products such as mangoes and pumpkins. But, even for pumpkins, access to the US market is curiously unpredictable. "I can tell you to the month when they're going to find 'weevils' in my pumpkins," says an increasingly cynical Hall. Strangely enough, that just happens to be the month the US pumpkin harvest gets under way.

Financial Times 100 years ago

Chinese observations

Li Hung Chang has now arrived at Pekin, after his tour amongst the Barbarians, and by this time will doubtless be communicating to his Imperial master the result of his observations in the West. We await with interest to hear whether he is to be decorated with more peacocks' feathers or is to be decapitated. It all depends on how much he tells the Emperor. We know that throughout his European trip he carefully collected particulars of the ages and incomes of everybody he met, from Mr. Gladstone down to the senior attendant at the Empire, and if he confine his recital to such points as these, he will almost certainly get the peacocks' feathers. But if he presume to explain that he has discovered that the "white man with the yellow money" is more advanced in civilisation than the "yellow man with the white money", then the betting is, we are afraid, against his head. We imagine however that Li Hung Chang is sufficiently shrewd to impress the Emperor with the fact that although the Barbarians are a contemptible race as compared with the Celestials, they are useful as hirelings for the manufacture of war-ships, armaments and factories. And, after all, that is the main point.

FINANCIAL TIMES
Monday October 21 1996

Germanophobia rules in a day by the seaside

Robert Peston finds little to comfort the EU at the first Referendum party conference

Standing ovation: Sir James Goldsmith acknowledges the *applause at the end of his closing address*

Anyone attending the first annual conference last Saturday of Britain's Referendum party could have been forgiven for mistaking the whirr of the air conditioning for the hum of Messerschmitts crossing the English Channel.

Germanophobia was everywhere: in the speeches, in the video shown on two giant screens and in the casual conversations of the glitterati attending pre-conference soirées and dinner parties.

The Referendum party, which was created a year ago by the billionaire businessman Sir James Goldsmith, is not overtly anti-German. It is not even officially opposed to the European Union. Its ostensible purpose is to pressure the British government to hold a referendum on Britain's relationship with the EU.

But there was Sir Alan Walters, the former economic adviser to Baroness Thatcher, railing against the German central bank. Then came Sir James's zoo-keeping millionaire friend, Mr John Aspinall, who declaimed from the triumphalist stage that "in this century, a million Englishmen have given up their lives so that we should remain free, free from a German-dominated Europe".

More sophisticated was the closing address by Sir James, the party's founder, who attacked German ambitions to create what he called a federal European superstate. In an analysis which owed much to continental thinking – probably reflecting his own German-Jewish descent and Anglo-French dual nationality – Sir James cited the German philosopher Hegel, who "believed in the state and despised the people".

Hegelian influence had led to the EU being dominated by bureaucrats who were leading its member countries "blindfold into a federal superstate", Sir James said.

Meanwhile, a video played in the gaps between the speeches, showing images of German chancellor Helmut Kohl, looking like a kind of mafia kingpin, with quotations superimposed from European ministers designed to demonstrate his supranational ambitions. There were even pictures of tanks rolling through unspecified streets.

Speaker after speaker received a standing ovation from the 4,000 members and sympathisers who packed into the conference centre. For all Sir James's avowed intention that his party's members should include pro- and anti-Europeans, there was no doubt that the vast majority of his supporters were Eurosceptics.

There were small businessmen damaged by the last recession, which they blamed on sterling's membership of the European exchange rate mechanism. There were fishermen facing hardship which they blamed on the common fisheries policy. Most were white, over 50 and former Conservative voters.

At the end of the seaside rally, Sir James's motivations and ultimate aim still remained unclear. At a dinner organised by Lady Powell, the wife of Sir Charles Powell, the former foreign affairs adviser to Baroness Thatcher, Sir James talked about "the tumour of Brussels control", media distortion which "makes you puke" and hypocritical Tory ministers and MPs.

He did not yet have a wording for the referendum he wants, although he was currently in favour of "a very simple question: for and against Maastricht". Success would be measured by whether he got "one or two" representatives elected, which "would be amazing", but which he was beginning to think possible.

Vienna shares row prompts exchange rule move

By Eric Frey in Vienna

The Vienna Stock Exchange has announced changes in trading rules in the wake of the resignation of the head of securities trading at Investmentbank Austria, a subsidiary of Bank Austria.

Mr Anton Imre resigned following allegations that his department manipulated equity prices to secure a profit on a large options deal.

The exchange, one of Europe's smallest, said the rule changes should prevent such practices – which are not illegal – in future.

The affair has angered institutional investors and cast doubts over the Vienna exchange's ability to shed its image as a closed club with rules favouring a few local banks. Bank Austria, the country's largest bank, denied any wrongdoing but called its traders' action "extremely short-sighted and damaging".

Mr Imre stepped down on Friday after allegations in the market and the media that his bank had sold thousands of blue-chip shares just before the close on Wednesday. In seconds, the ATX index of shares lost 17 points, or 1.5 per cent, falling to 1,073.54.

Brokers said Investmentbank Austria had earlier sold to Girocredit, another bank, 30,000 call options – exercisable when the ATX index closed above 1,080. In late trading Wednesday, Girocredit, in which Bank Austria has an indirect majority stake, apparently put in large buying orders for shares in VA Tech, OMV and EA-Generale to drive the ATX up. When the index hit 1,090, Investmentbank Austria struck back with even larger sell orders and drove the index down. Because of the closing bell, other investors had no chance to act on the last prices.

The alleged manipulations were possible because the stock exchange's new electronic trading system EQQS overreacts when a succession of large orders is placed.

The exchange said it would start using a weighted average to calculate the price of blue chips and the ATX, to avoid massive price swings in thin trading. It would also raise the minimum number of shares for which market-makers have to set a firm price. In the longer term, EQQS software should also be improved.

The uproar is an embarrassment for Bank Austria chairman Mr Gerhard Randa, who is also president of the stock exchange. He dismissed criticism of his double role, citing Frankfurt, where Deutsche Bank board member Mr Rolf Breuer is also exchange head.

THE LEX COLUMN

Deutsche's debt dilemma

As Deutsche Telekom's roadshow kicks off this week, investors will want to know how serious the company is about paying down its debts. Privately, executives say cutting borrowings, which amounted to a net DM106bn at the end of last year, is their over-riding priority. But the prospectus is not nearly as clear. Reading it, one might conclude DT's first objective was to "increase its international presence". Prospective shareholders will not be reassured by the notion that billions more will be spent on foreign adventures. So Mr Ron Sommer, the company's chief executive, would do well to state publicly that this is not what he has in mind.

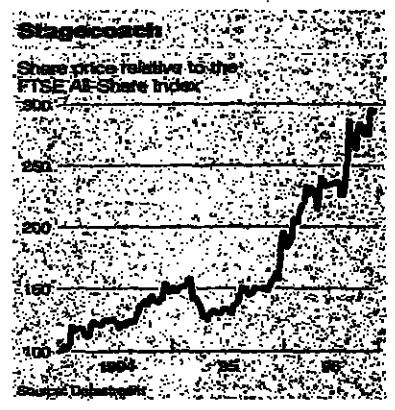
He should also clarify exactly what DT's target of cutting debt to DM65bn by the end of 2000 means. For example, would the proceeds from a second share issue, expected in 1999, be counted towards this target? Privately, executives are categorical that they would not. But the prospectus, again, is fuzzy. Furthermore, DT should stop talking about gross debt, which is pretty meaningless, and focus on net debt. It boasts that gross debt fell DM15bn last year. But this is less impressive when one realises that cash resources also fell by DM8bn, with the result that net debt was down only DM7bn. DT also does not include DM6bn of pension obligations in its calculation of debt.

That said, DT's cash flow is so strong that a net debt target of DM65bn (including pension obligations) by 2000 should be achievable. The question then becomes how DT should be valued. German investors will look at its fat dividend. If the shares were sold at DM30 – the top of the price range to be revealed today – the net yield would be 4 per cent. Given that Germans can cash in a tax credit, the gross yield would be an attractive 5.7 per cent.

International investors, though, will be inclined to look at DT's earnings before interest, tax, depreciation and amortisation (ebitda). European telecoms operators, on average, have an enterprise value (market capitalisation plus debt) of 4.2 times 1996 ebitda. At DM30 a share, DT's ev/ebitda ratio would be a pricey 5.5. Even at DM25, the bottom of the price range, the ratio would be 5.1.

DT's advisers argue that normal ebitda multiples are inappropriate given the company's capacity to pay down its high debts. Maybe. But what if one flashes forward to 2000? With DT's net debt then down to DM65bn, the argument that it is a special case should no longer apply. Indeed in 2000, DT will be starting to feel the bite of competition with the result that its ebitda is barely expected to grow thereafter. So an average ev/ebitda ratio of 4.2 – giving a share price of DM37 – would seem reasonable for 2000.

If the shares were sold at DM30 today, the implied annual capital growth would be only 5½ per cent. Even adding the 4 per cent yield, the prospect is hardly appetising. But at DM25, the capital growth would be a respectable 10 per cent. Given the juicy dividend, the shares would then be worth buying – but only just.



Olivetti

The introduction of four new faces to Olivetti's board is undoubtedly a step in the right direction. The independence of three of them cannot be questioned. Shareholders may have fared poorly during the latter years of Mr Gerard Worms's tenure at Compagnie de Suez. But as the victorious adversary of Mr Carlo De Benedetti in the battle for Societé Generale de Belgique, at least he cannot be classed as family. Mr Gordon Owen adds broad international telecommunications expertise, while Mr Dario Trevisan is the choice of international shareholders. This should ease fears over the influence of Mr De Benedetti's following his recent resignation. Mr De Benedetti owns less than 3 per cent of Olivetti, but controls 14 per cent of its shares, raising valid concerns that his personal interests are not wholly aligned with other shareholders.

Having reinvigorated the board, new chief executive Mr Roberto Colaninno needs to improve transparency. Olivetti's accounts have left investors in the dark. Delayed payment of suppliers, for example, gave an unusually benign picture of Olivetti's debt position at the half year. Investors deserve better.

Transparency would be a mixed blessing, but at least it would put management under pressure to take the tough strategic decisions that are necessary. Olivetti can only fund its investment in telecoms network Infostrada, if it makes significant disposals elsewhere. Current plans for only partial flotation of Lexikon and retention of the disastrous services and systems division look like a recipe for more shareholder pain in the form of another recapitalisation.

Stagecoach

Helped by Friday's apparent approval by the UK government of the Porterbrook rail leasing deal, the share price of Stagecoach, the rail and bus lines group, continues its seemingly endless rise. Shareholders should hang on, the argument usually runs, because the price is underpinned by formidable earnings growth. After all, the shares are trading at a slight discount to the market price/earnings multiple for, say, 1997/98.

In fact, investors should beware of this comforting theory – because Stagecoach's price/earnings multiples are now dangerously flattering. For a start, a big chunk of earnings growth comes from South West Trains, a franchise which ends in 2003 and should therefore be stripped out and treated differently. So should Porterbrook, a rolling stock leasing company whose profitability once existing leases come to an end between 2002 and 2004 is anyone's guess.

To isolate these effects precisely is tricky because it is difficult to pin a long-term value on Porterbrook. But it and SWT both have a strong "jam today" effect and deserve low multiples; this implies that the rest of Stagecoach is trading at a price/earnings premium to the market, even for 1997/98. Yet the rump is mainly composed of mature bus businesses with dull growth prospects. For them, such a rating looks implausibly racy.

Of course, there is a case for hanging on to the shares regardless. Stagecoach has a remarkable ability to pull imaginative rabbits out of hats. But investors should be taking this pricy gamble with their eyes open, now that the shares look fundamentally over-valued.

Gains by the LDP

Continued from Page 1

the Democratic party, a newly formed group which emerged from yesterday's poll as Japan's third-largest.

"Our stance is that we would welcome anybody or any party that will agree with our policies," Mr Hashimoto said.

The turnout appeared to reflect voters' weariness with the years of muddled coalitions that followed the LDP's loss of its monopoly of power in 1993 with the previous lowest turnout, 67 per cent.

Deutsche Telekom shares to be in DM25-30 range

Continued from Page 1

European banks, Deutsche Bank, Dresdner Bank and Goldman Sachs met throughout the weekend in Frankfurt to hammer out a price range for the IPO, one of the world's largest ever, before finally agreeing at lunchtime yesterday.

It is clear that Deutsche Telekom was looking for a price of around DM30 per share, but having apparently set a range of DM25-DM30, it is admitting that the new capital that it will raise will probably be less than hoped. "With a range of DM25-DM30 it's unlikely that it's going to be DM30 unless demand is exceptionally price insensitive or large," one banker close to the issue said.

The company may be able to recover some of the possible shortfall by resorting to the so-called greenshoe, an additional packet of 75m new shares which may be issued to stabilise Deutsche Telekom's share price in the weeks after the stock market listing.

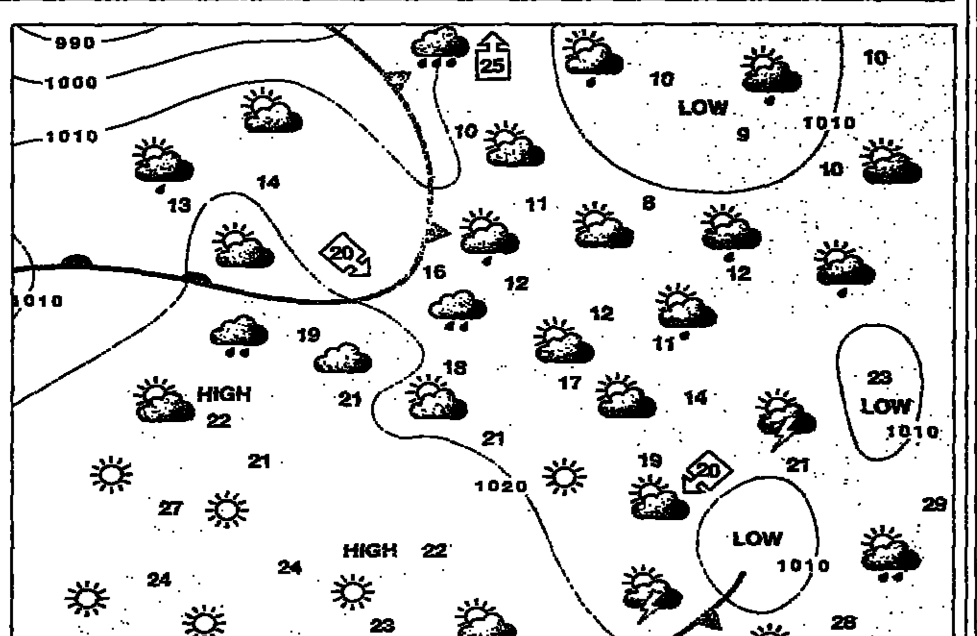
FT WEATHER GUIDE

Europe today

South-western Scandinavia, Germany and north-western France will have cloud and rain. In the wake of this rain, bright intervals are expected over the UK and the Benelux. Several low pressure systems in eastern Europe will cause showers from Belarus across the Ukraine and into the eastern Mediterranean. Turkey will have a few thunder storms. High pressure will result in widespread sunny spells over the Iberian peninsula and the western Mediterranean. The Balkans and parts of eastern Europe will have bright intervals.

Five-day forecast

Cloud and bright intervals will be experienced in most of western Europe as a southerly flow moves moist and mild air into the region. At mid-week, a more westerly flow will bring rain to the British Isles and the western part of the continent.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	Beijing	fair 16	Caracas	fair 32	Faro	sun 24	Madrid	sun 24	Rangoon	fair 33
Abu Dhabi	sun 33	Belfast	fair 12	Cardiff	cloudy 14	Frankfurt	rain 15	Majorca	fair 22	Reykjavik	rain 9
Accra	fair 30	Belgrade	fair 12	Casablanca	sun 23	Geneva	shower 17	Malta	fair 22	Rio	cloudy 25
Algiers	sun 24	Berlin	cloudy 12	Chicago	cloudy 17	Gibraltar	sun 23	Manchester	shower 14	Rome	sun 21
Amsterdam	shower 16	Bermuda	fair 25	Cologne	rain 16	Glasgow	shower 13	Manila	sun 30	S. Frsco	fair 21
Athens	shower 20	Bogota	cloudy 20	Dakar	fair 31	Hamburg	rain 13	Melbourne	sun 18	Seoul	sun 19
Atlanta	sun 25	Bombay	rain 34	Dallas	thund 29	Helsinki	shower 8	Mexico City	fair 25	Singapore	shower 32
B. Aires	cloudy 18	Brussels	shower 16	Delhi	sun 32	Hong Kong	cloudy 29	Miami	sun 28	Stockholm	fair 8
B.ham	fair 15	Budapest	rain 11	Dubai	sun 33	Honolulu	cloudy 31	Milan	cloudy 18	Strasbourg	rain 15
Bangkok	rain 34	C.hagen	rain 11	Dublin	fair 13	Istanbul	shower 16	Montreal	rain 11	Sydney	fair 20
Barcelona	sun 22	Cairo	sun 28	Dubrovnik	fair 17	Jakarta	shower 32	Moscow	rain 9	Tangier	sun 26
		Cape Town	fair 16	Edinburgh	fair 13	Jersey	rain 15	Munich	rain 13	Tel Aviv	sun 30
						Karachi	sun 32	Nairobi	fair 27	Tokyo	fair 19
						Kuwait	sun 32	Naples	fair 20	Toronto	cloudy 14
						L. Angeles	sun 24	Nassau	fair 29	Vancouver	rain 12
						Las Palmas	sun 27	New York	rain 13	Venice	cloudy 17
						Lima	fair 19	Nice	sun 19	Vienna	rain 12
						Lisbon	sun 25	Nicosia	sun 31	Warsaw	cloudy 8
						London	sun 17	Oslo	cloudy 7	Washington	fair 18
						Luxbourg	rain 14	Paris	rain 18	Wellington	fair 15
						Lyon	cloudy 19	Perth	shower 24	Winnipeg	sleet 4
						Madeira	sun 25	Prague	rain 11	Zurich	rain 13

FINANCIAL TIMES
COMPANIES & MARKETS

Monday October 21 1996

Gazprom issue to be priced at top of range

By Robert Corzine in London

The initial international offering by Gazprom, Russia's largest company, is expected to be priced this week at the upper end of the $14-$16 range announced when the global offering was launched two weeks ago.

The issue of 23.7m American Depositary Shares, or about 1 per cent of the company, is said to be "oversubscribed," but it was unclear yesterday whether the 15 per cent over-allotment option will be exercised.

Gazprom wants to price the issue as high as possible but will seek not to deter investors from participating in future sales. The issue is the first of a series which will lead to Gazprom selling 9 per cent of its equity to foreign investors.

"Gazprom will want to sell their 9 per cent at the highest average price and so should be quite content to hold shares for the next tranche," one Moscow-based banker said yesterday. "For Gazprom a successful deal is one which positions the company in the international capital markets."

Foreign institutional investors will be allocated shares this week. There is no "prescribed formula" for the allocation, which will be based on a number of factors, including the "perceived quality" of the investor and their geographical location. Interest was said to be particularly strong in continental Europe, Gazprom's main export market.

The abrupt sacking of Mr Alexander Lebed as Russia's security chief last week has cast a shadow over the deal but does not appear to have deterred many institutional investors, which were aware of the political risks of investing in Russia.

Mr Lebed's departure also removed one particular threat to Gazprom, since the former general's advisers have been arguing for its renationalisation.

The position of Mr Victor Chernomyrdin, the prime minister who formerly ran Gazprom and maintains close ties with the company, has been strengthened by the latest developments.

On Friday, President Boris Yeltsin published a decree freezing energy prices until December – a move intended to ease the non-payment crisis which has been plaguing Russian companies.

The decree calls for a mechanism to clear the Rbs50,000bn ($9bn) which is owed to Gazprom by late-paying customers. But it will also make the government even more insistent on recovering Rbs15,000bn of taxes which Gazprom owes.

On Friday, senior Gazprom managers completed a two-week road show in Europe, Asia and the US with a visit to Chicago.

Mr Rem Vyakhirev, Gazprom's chairman, was said to have been "truly surprised" by concern over the company's tax position.

He told potential investors that Gazprom, which accounts for 6-8 per cent of Russia's gross domestic product, was not seeking special tax privileges. It wants a netting out arrangement, under which it could offset tax liabilities against domestic debt, most of which is owed by government agencies and municipalities.

INSIDE

Eni

The Italian Treasury has fixed a maximum price of L7,425 per share for the offering of 8.5 per cent of Eni, the national oil company. This compares with Friday's close of L7,498. A positive outcome of the Eni sale, due to raise at least L5,200bn ($3.39bn), is regarded as essential for the offerings next year of Stet, the telecoms group, and Enel, the national electricity company. Page 20

Endesa

Spain's power industry will see a wide-ranging reorganisation following the $1.56bn agreed takeovers announced on Friday of the Sevillana and Fesca power companies by Endesa, Spain's government-controlled generator. Page 20

British Sky Broadcasting

British Sky Broadcasting, the UK satellite television operator, is facing a challenge from minority shareholders over plans to exempt two directors from having to stand for regular re-election to the board at annual general meetings. Page 20

Fund Management

Changes in the global political environment which have opened up vast new areas to exploration are attracting some North American fund managers into a new area: small natural resources and mining companies. The risks are high, but one big find can mean a good pay-off for investors. Page 20

Global Investor

For investors, the new era of European monetary union promises a markedly higher overall level of financial stability among Emu members. It may also, however, produce a world of more brittle credit, at least until the system settles down sometime in the next century. Page 22

The head of Mercedes is resisting plans to restructure the German group

Daimler rivals fight for pole position

During a reception at Daimler-Benz several months ago, Mr Jürgen Schrempp, chairman, put an arm round the shoulders of the man he likes to call "my good colleague".

The colleague was Mr Helmut Werner, chairman of Mercedes-Benz, Daimler's largest division. He looked distinctly uncomfortable but managed a smile. Mr Schrempp, by contrast, holding a long cigar in his other hand, was beaming: he wants to extend his grip to the whole of Mr Werner's company. Mr Werner is, however, putting up stiff resistance.

The Daimler chairman is pushing for an in-house merger with Mercedes-Benz as part of a wider management reorganisation. Mr Werner opposes the dismantling of Mercedes, a company he has helped turn into Europe's most profitable carmaker.

Both sides insist the debate is primarily over commercial issues, but it has been overshadowed by the personal rivalry between two of the biggest figures in German industry – two men who once competed for the top job at Daimler and whose antagonism has continued to the present day.

Mr Schrempp became chairman of Daimler in May last year, and Mr Werner continued in his old job at Mercedes. It is a powerful job in its own right since Mercedes makes up the bulk of Daimler's business volume and virtually all its profits.

The problem was that Mr Werner had, owing to a series of internal changes, gradually become too powerful. Ironically, this increase in power could now trigger his downfall.

Mr Schrempp began his reign at Daimler with a profit warning. The company ended last year with a net loss of DM5.7bn ($3.7bn), the result of miscalculations in dollar exchange dealings and of heavy reorganisation expenses.

During last year, Daimler decided to dismantle AEG, the industrial subsidiary. Early this year, it pulled out of Fokker, the Dutch regional aircraft maker, and then sold Dornier, a German regional aircraft group. The number of business divisions fell from 35 to 25. For those which survived, Daimler introduced financial performance targets for the first time.

Daimler has been returning to its roots: transport technology. But along the way the size of Mercedes – and the influence of Mr Werner – within the group has strengthened.

Mr Schrempp argues that it is impossible to manage Daimler without managing Mercedes. More seriously, he says that many senior management functions in the group are duplicated and that there are too many layers of management bureaucracy.

The chief of the company's west European trucks unit, for example, reports to Mercedes' commercial vehicles chief, who is a member of the management board of Mercedes. The commercial vehicle chief reports to Mr Werner, who is also a member of the Daimler-Benz board.

A merger would cut out the Mercedes board, leaving the head of each business unit reporting directly to Daimler's main board.

Everybody, including Mr Werner, agrees that the current structure – designed to reflect the now discredited concept of the "integrated technology group" – needs an overhaul.

To support his drive for change, Mr Schrempp has commissioned research from Goldman Sachs, the US investment bank, which shows that management structures such as Daimler's are commonly associated with losers.

The winners are those which have adopted a portfolio system – a structure similar to that of Asea Brown Boveri, the Swiss-Swedish engineering group, and of General Electric of the US. Both companies are managed by a small board of directors directly responsible for each business unit. Daimler, by contrast, has several layers of top management.

In a recent report, J.P. Morgan, the US investment bank, also underlined the need for change at Daimler. It said: "The divisional holding companies are playing an ever-diminishing role in the administration of the company and are becoming little more than legal entities."

At present, Mercedes, Daimler-Benz Aerospace and Debis, the financial services and information technology subsidiary, are separate legal entities, while Daimler-Benz acts as a holding company responsible for allocating financial resources and for overall strategy.

Both Daimler and Mercedes have their headquarters in Stuttgart, but in separate parts of the city. Both sides regard the current internal debate differently.

At Daimler, a merger with Mercedes is now seen as the most likely outcome of the discussion. Within Mercedes, a merger is seen as only one of several options – and not the preferred one.

The German media have maintained a keen interest. Mr Werner is rumoured either to be about to leave the company or to be a candidate for a number of alternative positions. These include the posts of chief comptroller, deputy chairman, or chairman of the supervisory board, a position now held by Mr Hilmar Kopper, the chairman of Deutsche Bank.

One possibility under discussion is that Mr Werner should become deputy chairman and that the most senior members of Mercedes' 10-strong management board should also join the Daimler board.

The result would be a more streamlined organisation, of the type favoured by Mr Schrempp. But it would also ensure that the two men would remain at each other's throats.

Wolfgang Münchau

Jürgen Schrempp (left), Daimler chairman, is keen to control Helmut Werner's Mercedes

Moldova plans first dip into capital markets

By Kevin Done, East Europe Correspondent

Moldova, the former Soviet Republic sandwiched between Ukraine and Romania, is planning to make its first approach to the international capital markets since gaining independence in 1991.

The country, which is hoping to take advantage of the keen appetite among investors for emerging market risk, was planning in a first step to make a private placement for about $25m with institutional investors in the US, Europe and Asia, said Mr Valeriu Chitan, Moldovan finance minister.

Moldova was negotiating with international credit rating agencies to gain a rating by the end of this year. It intended to make its first eurobond issue for about $50m during the first half of 1997, he said.

Merrill Lynch has been appointed financial adviser and lead manager for both the private placement and the Eurobond issue.

Moldova is following Russia and Lithuania from the former Soviet Union, which have gained international credit ratings, and Kazakhstan, which is expected to be rated shortly.

Russia received higher than expected non-investment grade ratings this month from the US rating agencies Moody's (Ba2) and Standard & Poor's (BB-), and from IBCA (BB+), the European agency. Lithuania is rated Ba2 by Moody's.

Four central European countries; Slovenia, the Czech Republic, Poland and Slovakia, have investment grade ratings. Investor interest is moving further east as the terms for lending to the former communist states of central Europe become more competitive.

Moldova, with a population of 4.4m and one of the highest population densities in Europe, has succeeded in stabilising the economy during the past two years. It has reversed the sharp contraction of activity that followed the breakdown of the Soviet Union and the collapse of the Comecon trading system.

Inflation, which was running at more than 2,000 per cent in 1993 is forecast to fall to 16-17 per cent year-on-year by December.

Gross domestic product, 43 per cent of which is accounted for by agriculture, is forecast to rise by 1-2 per cent in 1996 and by 6-7 per cent in each of the next two years. Output had declined for five years in succession with GDP declining by 29 per cent and 31 per cent in the drought years of 1992 and 1994, according to a report by Merrill Lynch.

The risks facing investors in Moldova are accentuated by the continued absence of any political settlement in the break-away regions of Trans-Dnestr, where there is a heavy Russian army presence, and in Gagauz in the south. The festering conflict with Trans-Dnestr has been in stalemate since civil war flared in 1992.

STATISTICS

Base lending rates	25	London share service	26-27
FT/S&P-A World indices	22	Managed fund service	28-30
FT Guide to currencies	23	Money markets	25
Foreign exchanges	25	New int bond issues	23-24
London recent issues	25	World stock mkt indices	31

COMPANIES IN THIS ISSUE

Adidas	6	JGC	4
Air Liberté	21	Lear	21
Astra	21	McDonald's	21
BP	19	Mercedes-Benz	19
BSkyB	20	Mobil	19
Bolloré	21	News Corporation	1
Borealis	21	Nike	6
Camelot	6	Olivetti	18
Daimler-Benz	19	Optus	20
Deutsche Telekom	1, 18	Oracle	6
Electronic Data Sys	6	Reebok	6
Endesa	20	Saipem	4
Eni	20	Sampoerna	21
Eurotunnel	3	Securum	20
Gazprom	19	Shell	4
ITT Hartford	21	Stagecoach	18
JAL	21	Trygg-Hansa	21

BP/Mobil to contract out finance operations

By Robert Corzine in London

British Petroleum and Mobil of the US hope to secure even bigger cost cuts from their planned $5bn European refining and marketing joint venture by outsourcing many financial tasks to international accounting companies.

Talks on transferring about 730 BP and Mobil staff throughout Europe to the accounting companies are being held with employee works' councils in individual countries.

Under the terms of the BP/Mobil deal the "financial transactions" staff involved in the outsourcing proposal will keep track of more than $20bn-worth of annual sales that will be generated by the combined operation.

A "European enabling agreement" is expected to be signed soon with Andersen Consulting and Price Waterhouse. The two companies will divide the task along geographical lines in the 43 countries covered by the joint venture agreement. The final decision on whether the BP/Mobil joint venture in a particular country will opt for outsourcing is expected to be taken by local management.

BP and Mobil hope to make annual savings of $400m-$500m from the joint venture. The company declined to say how much more it might save by concluding an outsourcing deal.

In February, BP and Mobil said the new venture would be supported by 2,200 "common services" staff drawn from the two companies.

The decision to outsource the financial transactions division would not lead to other specialist services within the joint venture being hived off, said BP.

The structure and success of the BP/Mobil project in Europe is being watched closely by the international oil industry, which is facing a restructuring of the refining and marketing sector as competitive pressures erode profit margins.

Although financial outsourcing has gained a secure foothold among the upstream divisions of some oil companies, it had not been tried to any degree in downstream operations. Nor had it made many inroads into continental Europe, said accountants.

The BP/Mobil move is thought to be based in large part on the success of a similar programme at BP Exploration in Aberdeen, where the cost of accounting services has been more than halved since more than 300 staff were transferred to Andersen Consulting in 1991.

Those numbers had dwindled to about 150, but BP and Andersen said those who remained had generally welcomed the arrangement.

Oil companies seeking to lower their cost bases have asked outside suppliers to take over many other routine tasks.

Italy pins future sale hopes on Eni

By Robert Graham in Rome

The Italian Treasury is staking its prestige on the success of the second stage of its privatisation of Eni, the national oil company, which opens today and closes on Friday.

A positive outcome of the Eni sale, due to raise at least L5,200bn ($3.39bn), is regarded as essential for the offerings next year of Stet, the telecoms group, and Enel, the national electricity company. It will be the largest European privatisation this year after Deutsche Telekom.

The Treasury fixed on Saturday a maximum price of L7,425 a share for the offering of 700m shares, equivalent to 8.5 per cent of Eni's stock. The price ceiling was fixed cautiously. Last Friday, when 20m shares worth over L147bn changed hands, Eni shares closed at L7,498.

The final share price will be the average of this week's trading. The offer carries a 3.5 per cent discount on this Friday's closing price. Yesterday, analysts said this was in the middle range and in line with similar offers internationally.

Eni and its advisers claim the roadshow has attracted considerable interest. But the bookbuilding operation among institutional investors is still in progress. Special interest will focus on the US, allotted 165m shares, where the roadshow is finishing this week and where bookbuilding has started last. If the 'greenshoe' overallotment option of 105m shares for institutional investors is included, the stake being sold will be 10 per cent.

The Treasury has deliberately limited the size of the sell-off to a conservative estimate of market demand. But senior officials have indicated the offer could be resized if demand is strong.

Retail investors in Italy will be allowed to buy up to 300m shares, and an unprecedented marketing campaign – with the slogan "You too with Eni" – has encouraged Italians to buy Eni.

Television, radio, and newspapers have been used in the campaign. Banks who sell shares to clients will be given a special premium on sales, while investors who hold on to the shares for a year will get a one-for-10 bonus.

BSkyB faces challenge to rule change

By William Lewis

BSkyB, the satellite television operator, is facing a challenge from minority shareholders over plans to remove two directors from having to stand for regular re-election to the board at annual general meetings.

The company wants a change to its articles of association to enable Mr Michel Crépon and Mr Jérome Seydoux to avoid ever having to be re-elected.

Pirc, the corporate governance consultancy, has advised its institutional shareholder clients to oppose the change. Its call is likely to be supported by leading pension funds who recently launched a campaign to press public companies to put all their directors up for re-election.

The National Association of Pension Funds said that "as a general principle we would not welcome the introduction of insulation unless the company has exceptionally strong arguments. No doubt shareholders will be looking closely at these [BSkyB's] proposals."

BSkyB said that "we have good reasons for it." Mr Crépon and Mr Seydoux are appointees of Pathé, the French media group which became one of BSkyB's largest shareholders when it was formed out of the demerger of the Chargeurs conglomerate.

Rupert Murdoch: role of daughter as 'alternate director' was highlighted by Pirc report AP

BSkyB is proposing that its articles of association are changed to ensure that directors appointed to its board by Pathé do not in future have to face regular re-election.

Both were formerly the appointee directors of Chargeurs, but are having to stand for re-election at next month's BSkyB's annual meeting because they are now appointees of Pathé.

BSkyB wants to change the articles so that all the shareholder appointee directors of BSkyB are insulated from regular re-election.

Pirc's report for clients ahead of BSkyB's annual meeting on November 1 also highlights the new role of Ms Elisabeth Murdoch, daughter of Mr Rupert Murdoch, also a director of BSkyB.

Earlier this year Ms Murdoch was appointed as an executive of BSkyB and as an "alternate director" to three BSkyB directors, Mr Murdoch, Mr Arthur Siskind and Mr David Devoe.

Mining a seam of opportunity

Tracy Corrigan on the growth of North American interest in commodity companies

Some North American fund managers looking for growth but sceptical about the valuations of technology stocks are moving into a new area: small natural resources and mining companies. Usually, these are only growth stocks if commodity prices are going up. This trend is different: it is the result of changes in the global political environment which have opened up vast new areas to exploration. The risks are high, but one big find can mean a good pay-off for investors.

"Geo-political changes after the Cold War set the whole trend in place. Many countries and territories which were previously unavailable for investment purposes have opened up," said Mr Frank Giustra, chief executive officer of Yorkton Securities, a Canadian-based securities firm which arranges financings for junior mining and oil exploration companies.

According to Mr Giustra, the opening up of new territories and moves towards implementing proper mining laws has opened up the two-thirds of the world's mineral-rich land which was not available five years ago. In those days, Mr Giustra notes, companies were more or less restricted to Australia, America and Africa.

Mr Doug Donald who manages the Scudder Gold Fund says the driving force behind the growth of specialist funds has been "the opening up of very good regions which had never been explored by modern methods. The quality of the exploration work currently being undertaken is superb. It only takes one drill hole to double or triple the value of a stock."

US natural resource and mining mutual funds increased their funds under management to $10.4bn at the end of September, from $8.7bn a year before, according to Lipper Analytical Services. Emerging market funds, which have a high percentage of resources and mining stocks, have $15.1bn under management against $9.4bn a year ago, according to the Lipper numbers.

US fund managers find these investments attractive because they offer a play on the emerging markets through North American companies – mainly Canadian companies listed on the exchanges of Toronto

FUND MANAGEMENT

or Vancouver. This means that fund managers are not exposed to direct foreign exchange risk, a category of risk which US investors typically like to avoid; and they do not have to invest directly in emerging stock markets, which are generally undeveloped and may lack, for example, efficient clearing mechanisms.

Equity investment in these companies is obviously risky – some have no assets at all, but the rewards have been high. Lipper's US mutual fund performance tables show that the season's star was Eaton Vance Gold/Natural Resources, which made a 20 per cent return in the quarter, and has achieved a 42 per cent return for the year to date.

Such results could prompt a further shift of capital. The momentum has been created by the huge returns generated by a few big finds. For example, a large Indonesian gold discovery has catapulted Bre-X, a Canadian penny stock, into the big league. "Everyone is looking for the next big world-class discovery," says Mr Giustra. He believes, however, that the current investment trend will persist, supported by a stream of one large discovery every year or so for the next five years. This sort of discovery rate is sustainable, he says, given the greatly increased scale of exploration.

But the danger for investors is that the current trend is a bull market phenomenon. In a bear market, investors could become more risk-averse. Or exploration success could create problems of oversupply. "There has been a lot of promotion," warns Mr Harry Bingham, president of Van Eck Institutional Advisers. "In a bull market environment, people are willing to speculate."

Even more than in other equity funds, diversification is essential to try to spread the risk, given that some stocks are bound to be losers. Mr Donald's fund, for example, is invested in 30 countries, mainly through Canadian companies.

So what are the investment criteria for picking stocks, when many of these companies have no real assets and no performance history? Some fund managers, like Mr Donald, are trained geologists, who can analyse the technical viability of projects. He sets himself four simple criteria: people – who is running the company and what is their track record; property – is it good enough to develop; programme – is the exploration plan realistic; and last but not least, politics.

The last is often the trickiest. Some companies fail to deliver not because they cannot find what they were looking for, but because legal disputes develop with local partners, or governments.

Endesa leads Spanish power shake-up

By Tom Burns in Madrid

Spain's power industry will see a wide-ranging reorganisation following the $1.56bn agreed takeovers of Sevillana and Fecsa by Endesa, Spain's government-controlled generator.

Industry ministry officials, who crafted the takeovers announced on Friday, indicated over the weekend that Banco Bilbao Vizcaya (BBV), the principal investor in the power sector after the government, would sell its 6.5 stake in Sevillana to Endesa. It will now concentrate on Iberdrola, ranked next after Endesa, of which it already controls a 10 per cent shareholding.

Endesa, meanwhile, will sell the 7.5 stake in Unión Fenosa, the third-ranked power group. It will also dispose of its holdings in smaller electricity companies to consolidate its power business around Sevillana and Fecsa. The industry ministry, which wants to encourage greater competition in the electricity industry, favours the creation of a third power group around Unión Fenosa to prevent domination by Endesa and Iberdrola.

The takeovers, the biggest on the Spanish market, pushed the general index of Madrid's Bolsa to an historic high when it closed on Friday, and the ramifications of the bids will continue to be the focus of the market's attention.

Through the takeovers, Endesa will consolidate its position as Spain's dominant power group, and become one of Europe's biggest utilities. It stands to increase its cash flow from Pta411bn ($3.2bn) to Pta591bn, its sales from Pta884bn to Pta1,300bn, and total assets from Pta1,100bn to Pta3,300bn.

However, IBCA, the UK rating agency, warned that Endesa's total estimated debt, forecast at Pta552bn for the end of this year, will more than double through the takeover of Sevillana and Fecsa. IBCA has placed Endesa on RatingWatch.

Securum to sell UK assets

By Simon London, Property Correspondent

Securum, the state-owned Swedish holding company, is close to disposing of £100m of UK property, and has decided to sell the Ark, the futuristic London office building, which is its largest single asset.

The deals will virtually complete the sale of Securum's UK assets, three years after it was set up to acquire distressed loans as part of the recapitalisation of Nordbanken, the Swedish bank.

Mr Kai Ringenson, chief executive of Securum UK, said terms had been agreed to sell two Holiday Inn hotels in central London and Edinburgh, and a retail park in Richmond, south-west London, raising about £75m.

It is also negotiating the sale of Friars Bridge Court, an office block next to Blackfriars Bridge, central London, in a deal expected to raise about £30m.

The Ark, a landmark building adjacent to the A4 in Hammersmith, will be Securum's last significant UK asset once these transactions are completed.

The copper and glass structure stood empty for three years after its completion. It was taken last year by Seagram, the Canadian drinks and media company. The 25-year lease generates annual rental income of about £3.3m. Securum hopes to raise up to £50m.

The disposals will leave Securum UK with only a handful of smaller properties to sell, while its City of London office is also likely to be run-down.

Securum paid more than £500m for Nordbanken's UK loan portfolio in 1993 and took control of most of the underlying assets on which loans were secured.

In 1994 it floated Servisair, the airline service company, and last year it sold ANC, a parcel distribution business. This year it sold a £50m portfolio of outstanding loans to Amresco, a US company specialising in distressed debt.

The company hopes to repay about £205m to the Swedish government, compared with initial equity capital of £160m in 1993.

While part of this lift is due to the property market's improved tone, Securum has also invested to improve values. The Richmond site, for example, was valued at £3m in 1992; it has since spent £7m gaining planning permission and building a retail park. Its disposal will raise more than £20m.

Securum's Swedish parent announced in July plans to sell a majority stake in Castellum, its main Scandinavian property holding company, to Morgan Stanley, the US investment bank, for about Skr2bn (£192m).

Setback to Optus float plans

By Nikki Tait in Sydney

The forthcoming flotation of Optus Communications was put into doubt last week after the Australian telecommunications carrier failed to expedite a legal dispute with partners in its Optus Vision cable joint venture.

With this unresolved issue likely to cloud any prospectus, Optus maintains that its shareholders will need to investigate "alternative strategies for proceeding with a float of the company". The telecoms carrier, which had pledged to float in 1996, offered no details on timing.

Mayne Nickless, which owns 24.9 per cent of Optus which it had planned to sell, said on Friday it was still committed to achieving a float in 1996. "We are actively pursuing strategies with the other shareholders of Optus to achieve a float of Optus this calender year," said Mr Bob Dalziel, chief executive.

"We will immediately inform Mayne Nickless shareholders in the event that the float is not achievable in calender 1996," he said.

The original float plan was designed to give some liquidity to Optus shares, and put a market price tag – likely to be around A$4bn (US$3.2bn) – on the group. Mayne Nickless, Optus' largest shareholder, was expected to sell out completely, with part of its holding being offered to existing Mayne Nickless shareholders.

Optus was also expected to raise A$200m–A$400m at the time of the float, although half of that would come from a rights issue to the two foreign shareholders – the UK's Cable & Wireless and BellSouth in the US. Other institutional shareholders were likely to sell only modest amounts of shares.

The court case – which could hamper these plans – centres on a claim by Seven Network that other members of the Optus Vision consortium (including Optus Communications) breached the Optus Vision shareholders agreement by granting Mr Kerry Packer's Publishing and Broadcasting group options to increase its stake in Optus Vision.

At present, PBL owns only 5 per cent of Optus Vision, but the potential increase results from PBL's role in forging a satellite joint venture between the cable company and Australia, another pay-TV operator which holds a satellite broadcasting licence.

Optus did not detail what alternative ways of floating might be considered – although a compliance listing might theoretically be possible.

هكذا من الأصل

JAL to spin off some domestic operations

By Michiyo Nakamoto in Tokyo

Japan Airlines is to spin off some of its domestic short-haul operations to a subsidiary in order to improve efficiency and cut costs in the face of growing competition in the domestic air travel market.

The Japanese airline plans to transfer the operations of several short-haul routes next spring to Japan TransOcean Air, or another new subsidiary to be set up for that purpose.

The move comes amid growing signs of increased competition in the Japanese domestic airline market. Two companies with no previous experience in the industry this week announced plans to start domestic airline services at substantially lower rates than currently available.

Meanwhile, a government advisory committee on administrative reform recommended this week that landing slots at airports be redistributed on the basis of competitive bidding.

JAL, which badly needs to reduce costs and become more competitive, has for about a year been considering transferring its short-haul business to a subsidiary. Last year it posted a small net profit on a non-consolidated basis of Y492m ($4.37m) on revenues of Y1,115.9bn. However, it has reported a net loss in each of the years going back to 1992, which has led to a cumulative loss of Y49bn.

The transfer of some of its short-haul business to a subsidiary, which has lower employment costs than the parent company, is expected to reduce the cost of those businesses by 20 to 30 per cent, JAL noted. However, Japan TransOcean Air, has been in dispute with its employees over pay, the outcome of which is likely to determine which subsidiary will take on the short-haul business.

The transfer is part of a restructuring designed to cut costs and increase JAL's share of the domestic market. JAL hopes to reduce its dependence on the international business, where competition has been fierce, particularly from US airlines.

It aims to lift revenues from the domestic market from 30 per cent to about 40 per cent by increasing the number of domestic flights a year by 5 per cent.

However, its high cost structure and concentration on long-distance flights have made it difficult for JAL to improve the efficiency and cost competitiveness of its domestic short-haul operations. The company has long shouldered high personnel costs, and until last month its smallest aircraft were 767s, which have 300 seats, whereas short-haul routes require aircraft of about 150 seats.

Shake-up at group bidding for Air Liberté

By Andrew Jack in Paris

The battle for control of Air Liberté, the private French airline, of is heating up after a restructuring at one of its potential buyers.

Mr Vincent Bolloré, who heads the Bolloré Technologies group, has been nominated chairman of the leading companies within the family held Rivaud group, which was one of the airline's largest shareholders. A substantial recapitalisation is also being negotiated.

Rivaud, in collaboration with Mr Jacques Mailot, head of the Nouvelles Frontières travel group, has proposed to take over the operations and some of the debts of Air Liberté.

Offers for Air Liberté include one from British Airways, which controls the French airline TAT and hopes to gain access to Air Liberté's landing rights in France.

In the restructuring, the shareholders of Banque Rivaud are to inject FFr600m ($115m) into the company. Mr Bolloré takes over as chairman of the bank and of two other Rivaud businesses, Société Industrielle et Financière de l'Artois and Financière Moncey.

He also brings in two new directors. Count Edouard de Ribes, a member of the family controlling the Rivaud group, becomes head of a new supervisory board at the bank and honorary chairman of Société Industrielle.

Banque Rivaud is believed to have held over 32 per cent of of Air Liberté and to have lent it FFr1bn over the last few years. There is a long-standing connection between Mr Bolloré and Rivaud with cross-shareholdings and directorships.

Separately, unions at Air Liberté have run press advertisements saying the company should be saved to stop airspace returning to the monopoly control of Air France.

Suharto-linked group poised to buy Astra stake

By Manuela Saragosa in Jakarta

A private company controlled by foundations linked to Indonesia's President Suharto is set to buy a substantial stake in Astra International, the country's largest car assembler.

A local newspaper quoted Mr Bob Hasan, commissioner of Nusantara Ampera Bakti (Nusamba) and a close associate of President Suharto, as saying his group "has come to an agreement" with state-owned banks and that the transaction should be finalised this week.

The state-owned Bank Ekspor Impor said it had been in negotiations to sell the 4 per cent stake in Astra held by it and its pension fund.

Three foundations linked to President Suharto – Dharmais, Dakab and Supersemar – respectively hold 30 per cent, 25 per cent and 25 per cent of Nusamba, with the rest split between Mr Hasan and Mr Suharto's eldest son, Mr Sigit Harjojudanto. The president is the founder and chairman of the three foundations.

It is not clear how large the stake will be, but according to Astra's list of shareholders in early October, 9.61 per cent of the company was owned by its employees' co-operatives and a number of state-owned banks.

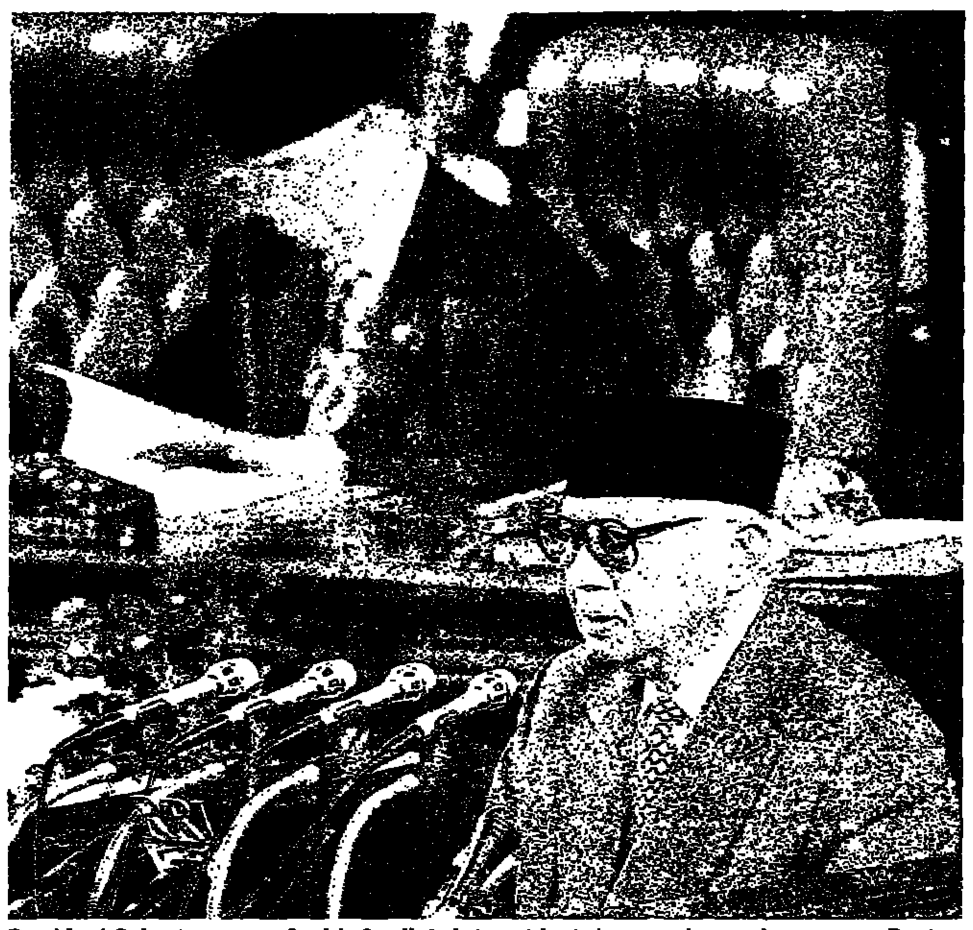
It remains unclear why the presidential family should be interested in a heavily geared car assembler facing increasing competition from Indonesia's "national" car project.

President Suharto's youngest son, Mr Hutomo Mandala Putra, has been awarded tax and tariff breaks not available to other car manufacturers to produce the car in co-operation with South Korea's Kia Motors. Analysts have suggested Mr Hutomo, who has no manufacturing facilities for his national car, could make use of Astra's facilities.

Astra has been surrounded by rumours of a takeover by parties close to President Suharto. Earlier this month, Mr Putera Sampoerna, president of Hanjaya Mandala Sampoerna, the cigarette maker, said he bought 9.81 per cent of Astra, while a Dutch unit of Sampoerna took a 2.85 per cent stake.

It was believed that Mr Sampoerna was a front man for the entry of new shareholders. However, the company announced it had cancelled a shareholders meeting to discuss the recently acquired Astra stake.

"We have decided not to pursue a course of action which would necessitate the meeting," it said.



President Suharto: reason for his family's interest in Astra remains unclear — Reuters

Futures shake-out tops conference agenda

International futures regulators, exchange chiefs, and heads of global futures broking firms will gather in Chicago this week for their regular autumn review of the listed derivatives business. Their attention, for the first time in at least three years, will be focused squarely on the economics of their business, rather than on eye-popping derivatives market scandals.

The Sumitomo copper trading crisis, while still not resolved either from the point of view of the Securities and Investments Board or the markets themselves, has cooled sufficiently not to dominate the Chicago agenda. Instead, industry leaders will be working to stem what many see as a crisis of consolidation.

Futures broking has always been run on thin margins, and has become less profitable as competition for diminishing business drives down commissions. Over the past two decades of explosive growth in futures trading, venerable family-owned firms have all but disappeared, replaced on exchange membership rolls by international banks with deep capital reserves.

However, a secondary exodus has evolved, with big banks such as Chase and futures clearing groups such as Refco sharply contracting their operations. Citicorp's futures clearing subsidiary is the latest big name said to be looking to hand over its customer business to another firm, or shopping for an outright buyer.

Fewer firms do not mean fewer customers for the exchanges, since the remaining companies do larger volumes. However, each bank and broking firm that leaves the exchanges takes with it important capital reserves that back the futures clearing houses – the institutions that guarantee trades and distinguish listed futures from over-the-counter derivatives contracts.

The exodus is most marked in Chicago, where the futures business is stagnating – volumes on the Chicago Mercantile Exchange were down 4 per cent for the first nine months of the year, after a sluggish 1995, and the Chicago Board of Trade's 5.8 per cent year-over-year volume advance masks a 5 per cent decline in its all-important US Treasury bond futures contract.

The declines seem small, but are a dramatic setback for institutions accustomed to doubling their business every five years.

Worldwide, the news is better. The restructuring of the London Clearing House, completed last month, shook out 45 member firms, but left 126 in a stronger, more broadly-capitalised entity. Europe's largest futures exchanges – London's Liffe, Paris' Matif, and Germany's DTB – are all enjoying healthy volume advances this year, further challenging Chicago's dominance.

In the hallways and at private dinners, industry executives will increase pressure on Chicago's exchanges to cut redundant technology and banking costs and become more globally competitive. Transatlantic alliances will be on the agenda, although less prominently now that Liffe's joint venture with the CBOT has been delayed. Some expect the Matif and CME to announce a co-operation on Euro-based contracts.

Regulators will meet privately to discuss how to refine memoranda that allow information sharing across borders during, or before, times of market crisis – an effort made more urgent by the Sumitomo affair.

Laurie Morse

NEWS DIGEST

McDonald's up 10% in quarter

McDonald's, the US fast-food company, managed a 10 per cent increase in net income in its third quarter, in spite of a fall in comparable US sales because of a competitive domestic environment. Net income rose year-on-year from $400m to $441m, while earnings per share rose from $0.56 to $0.62, roughly in line with expectations.

The company said the Arch Deluxe hamburger sandwich launched in May, and new chicken and fish lines launched three weeks ago, were performing in line with expectations, but declined to give details. The Arch Deluxe line is part of the company's strategy for reviving its flagging US performance. Earlier this month, McDonald's announced a surprise shake-up of its US management, when it appointed Mr Jack Greenberg, chief financial officer, to the newly-created post of chairman of McDonald's USA.

"Our US restaurants are operating in a complex, dynamic and difficult marketplace and recent operating performance has fallen short of our goals," said Mr Michael Quinlan, chairman and chief executive officer. However, he said the company was "very optimistic" about long-term growth in the US market. He said the company's increasing cash flow would be used in part to repurchase stock under a $2bn three-year programme.

Tracy Corrigan, New York

ITT Hartford in $543m loss

ITT Hartford, the US insurance company, last week reported a loss of $543m for the third quarter, following charges to increase asbestos and environmental reserves. The company said it had taken the charges to "eliminate a substantial drag" on its annual operating earnings.

Excluding the charge, the company made net profits of $150m for the quarter, a 13 per cent fall from the same quarter of 1995. It said that unusually high catastrophe claims, of $49m, against $14m for the same period last year, were chiefly responsible. Rating agencies said the charge was within expectations and left the company's ratings unchanged. Its shares were hardly affected, dropping $⅝ to $62⅞.

ITT Corporation, which has been a separate leisure company since last year's demerger, with holdings of hotels, casinos and two New York professional sports teams, also announced results last week. Profits of $67m, and earnings per share of 57 cents, were almost identical to the equivalent quarter of 1995, with gaming revenues down because of increased competition and disruption to construction. Meanwhile, revenues from hotels increased.

John Authers, New York

Lear agrees Borealis purchase

The restructuring of the world automotive components industry took another step when Lear Corporation of the US signed a memorandum of understanding to acquire Borealis Industrier of Sweden.

Borealis Industrier, with turnover of about $230m and 1,800 employees in Sweden, manufactures instrument panels, door panels, climate systems, exterior trim and other components for the automotive industry. It is owned by Borealis Holding, the big polyolefins joint venture between Statoil of Norway and Neste, the Finnish oil refiner.

Lear claims to be the world's biggest supplier of fully integrated automotive interiors following its acquisition last year of US companies Automotive Industries and Masland Corporation. Borealis Industrier would broaden "the appeal of our one-stop shopping competitive advantage", said Mr Kenneth L. Way, Lear chairman and chief executive, while Borealis Holding said the disposal, whose price was not disclosed, is part of the group's strategy of concentrating on its core business.

Hilary Barnes, Copenhagen

Trygg slips at nine months

Trygg-Hansa, Sweden's second-largest insurer, reported pre-tax profit of SKr2.10bn ($316.4m) for the nine months ended September 30, compared with SKr2.09bn a year ago. Earnings per share fell from SKr21.80 to SKr20.10.

Mr Lars Thunell, chief executive, said the group was continuing to focus on cost-cutting while investing in the growth areas of life insurance, savings and health and welfare insurance products. Restructuring in recent months is having a strong impact on profits, he said, in spite of competition in the Swedish non-life market. Trygg-Hansa said net premium income in non-life operations fell from SKr4.06bn to SKr3.76bn because of reduced income from reinsurance.

AFX News, Stockholm

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

New credit era dawns for Europe

The re-rating of European government debt, which is an inevitable part of the process of European Monetary Union, is also a harbinger of a profound change in the view the market takes of these securities.

On Friday, Standard & Poor's said it expects to award the European Monetary Union its highest credit rating, AAA. Moody's is expected to take the same approach. It would have been surprising if they had decided otherwise, given the obligation on the European Central Bank to pursue a policy of monetary stability, and the commitments to fiscal sobriety implicit in the Maastricht criteria and the proposed stability pact.

What is more interesting is the consequent implications for the debt of individual governments within Emu, and their corporate citizens. In the pre-Emu world, governments possess the power to create their own currencies in infinite amounts. Their credit rating for domestic debt is thus always AAA. Foreign-currency denominated debt is a different matter: only six EU members enjoy an S&P AAA rating for their foreign-currency denominated debt.

When countries join Emu, they lose the privilege of creating infinite amounts of their domestic currency. The logical consequence is that they lose the automatic triple-A rating they have previously enjoyed on domestic-currency denominated debt. The two biggest rating agencies differ as to how they will tackle the question of how the resulting euro-denominated debt should be assessed. S&P will initially award each country's euro-denominated debt the rating currently applied to foreign-currency denominated debt; Moody's will adopt a case-by-case approach. In practice, however, this is unlikely to lead to much disagreement.

There are two consequences. One is that the countries with the weakest public finances will lose automatic access to top-rated credit in their domestic currency. The second is that companies and local government entities will be able to obtain higher credit ratings than their national governments. Traditionally, the ratings agencies have refused to give companies a higher rating than that applied to their countries' sovereign debt. Now, the ceiling will be the AAA of the Emu area as a whole.

Analysts say that, in practice, it is local government entities that are most likely to benefit most from this change, rather than private-sector enterprises. But is that really so?

Governments possess the power to tax their citizens, it is true. But in an integrated single market – and a globalised world economy – that is a much less powerful weapon than it used to be. Corporate citizens, and even individuals, can vote with their feet against a high-tax regime, however necessary it may be to meet obligations incurred by previous generations. Companies are able to service their debts only to the extent that they provide goods and services customers are able to buy. But in today's world – as tax revolts in country after country have shown – that applies to governments also.

Governments within Emu will find themselves in a paradoxical position. On the one hand, their credit-worthiness will benefit from the umbrella of the region's high overall credit-rating and from the fiscal orthodoxy to which the Emu rules will commit them. On the other, they will be losing their ability to disguise an implicit default by inflation; and their revenues will be threatened by their new status as mere providers of goods and services in an increasingly competitive market.

The first set of arguments are likely to prevail, in the short term at least. They will be backed up by the widespread assumption that though there is a "no-bail-out" clause in the Maastricht treaty, the EU's constituent governments would try hard to avoid the default of one of their members.

As Philip Crate, head of credit research at Paribas capital markets, pointed out earlier this month, the no-bail-out clause does not prevent other countries from coming to the assistance of a fellow-member through purchasing its debt in the secondary market; and the Commission can also help as long as there is unanimous agreement from the council of ministers.

Still, such politically-based expectations sometimes fail in extreme circumstances – as lenders to eastern Europe who believed in the theory of the Soviet umbrella learnt in the early 1980s.

For investors, the new era promises a markedly higher overall level of financial stability among Emu members. It may also, however, produce a world of more brittle credit, at least until the system settles down sometime in the next century. The absence of currency risk in a single currency does not mean that the underlying economic risk has gone away. It will remain, but in a different form. The abrupt convergence of spreads in recent months has been a boon for investors; but it is not an irreversible process even when the single currency is well established.

Total return in local currency to 17/10/96

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	0.01	0.05	0.07	0.16	0.11
Month	0.45	0.04	0.26	0.30	0.70	0.48
Year	5.86	0.42	4.09	6.50	10.76	5.95
Bonds 3-5 year						
Week	0.57	-0.19	-0.04	-0.12	-0.26	-0.22
Month	1.70	0.49	1.17	1.38	3.01	2.76
Year	4.89	2.65	8.72	13.38	22.25	9.73
Bonds 7-10 year						
Week	0.80	-0.41	-0.15	-0.34	-0.63	-0.32
Month	2.41	0.64	1.21	1.80	4.45	1.51
Year	3.17	4.94	10.31	17.70	33.16	11.98
Equities						
Week	1.9	2.3	1.2	3.8	0.0	1.1
Month	3.6	0.3	3.3	4.2	4.0	2.7
Year	22.5	12.8	23.7	26.9	6.2	17.9

% change over period

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/S&P Actuaries World Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

Compiled by AFX News

Crude and gas price rises hit US oil groups

US oil companies are expected to report a mixed set of results in the third quarter, depending on how the recent surge in crude oil and natural gas prices has affected their operations.

Crude rose by between $4 and $5 and the price of natural gas by 60 cents in the third quarter, compared with the same period last year. This helped companies with a large proportion of downstream earnings but hindered those with big refining and chemical businesses.

Exxon, the largest US oil company, is expected to report flat third-quarter earnings on Monday, with the positive effect of the oil price rise expected to be dampened by lower profit margins in the chemical and refining businesses.

Exxon should report earnings per share of $1.21, against $1.20 a year ago and $1.26 in the second quarter.

Lower earnings are expected from Mobil on Monday, with the consensus at $1.81 ($1.85), against $1.95 in the second quarter.

Atlantic Richfield, with significant downstream operations, is expected to outperform the rest of the sector this quarter.

Texaco, with virtually no chemicals business, is expected to show higher earnings, with earnings per share of $1.39 ($1.05).

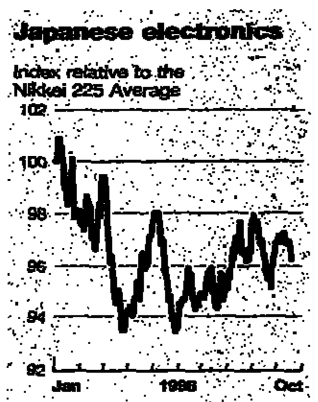
■ IBM is expected on Monday to report third-quarter earnings per share of $2.43, up from $2.3 a year earlier, lifted by new products and a slight reprieve from the foreign-exchange pressures which have plagued recent performances.

IBM warned in April that its second-quarter and third-quarter earnings would probably suffer from swings in foreign-exchange rates and a slowing in the European economy.

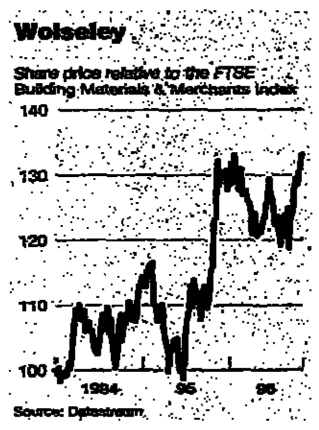
■ ABB Asea Brown Boveri, the Swiss-Swedish engineering group, is expected to report on Tuesday a net profit of $800m-$826m for the nine months to September, up from $651m. One analyst attributed the increase to a significant drop in the group's tax rate and lower personnel costs.

■ Philips Electronics: Analysts' estimates of net profit from ordinary operations for the third quarter to September at the Dutch group, due to report on Wednesday, range from Fl 288m ($173m) to Fl 461m. Either way, it will be a decline from last time's Fl 539m.

Some analysts expect bottom-line net earnings to be further depressed by substantial extraordinary charges, but declined to predict their size.



Source: Datastream



Source: Datastream

Philips issued a warning this week that preliminary information for the third quarter indicated the second-half year-on-year improvement in operating profit forecast in July was now "most unlikely".

The company also said it would accelerate planned recovery measures.

■ Japanese electronics companies are expected to report weaker earnings in the six months to September following sharp falls in the prices of microchip.

Mitsubishi Electric should announce a parent pre-tax profit of Y33bn ($306m), down from Y37.43bn, with sales at between Y1,250bn-Y1,300bn.

Analysts expect Hitachi's parent pre-tax profit to be between Y25bn-Y49bn, compared with Y54.9bn last time.

This month, Hitachi cut its year to March 1997 group pre-tax profit forecast from Y310bn to Y225bn.

Toshiba is expected to report interim pre-tax profits of Y18bn-Y32bn. A year earlier it made Y32.33bn. Toshiba itself had forecast Y35bn.

NEC is likely to report a first-half pre-tax profit of Y29bn-Y35bn, compared with Y49.68bn.

Fujitsu is expected to reveal a first-half to September pre-tax profit of Y16bn-Y33bn, compared with Y61.7bn the previous year.

■ SmithKline Beecham: Strong growth from the pharmaceuticals division is set to lift the UK healthcare group, which on Tuesday should announce third-quarter pre-tax profits up from £310m ($483.6m) to £370m-£380m.

Sales of the group's biggest selling drug, Augmentin, will be studied closely to see if it is continuing its recovery from a poor first quarter and regaining market share.

■ Wolseley of the UK, the world's largest distributor of heating and plumbing equipment, will announce its full-year profits on Tuesday, after warning they were unlikely to match the previous year's £245.4m.

The shortfall is unlikely to be great and the market is expecting pre-tax profits of about £240m, with problems in Europe, particularly in France, offsetting a resilient US performance.

The recovery in the UK housing market should assist the group, although the benefits many not be felt until later in 1996-97.

■ ICI, the UK chemicals group, is expected on Thursday to report pre-tax profits down for the third successive quarter.

Compared with last year's third quarter £248m ($387m), pre-tax profits of £120m-£135m are anticipated.

Declining volumes and weak pricing are responsible for the collapse, particularly in the industrial chemicals division where the polyester chain and titanium dioxide businesses are both making losses.

INTERNATIONAL EQUITIES By Conner Middelmann

Russia continues to attract

The upheavals in the Kremlin last week confirmed the risks of investing in Russia, but came as little surprise to investors who have already discounted the continuing risk of politically-induced volatility.

"Russia won't follow a straight path – there will be periods of progress, interspersed with bouts of setbacks," says Ms Nancy Curtin, head of emerging markets at Barings International Investment. "We are only at the beginning of a substantial re-rating of Russia and the market will remain volatile – but, if anything, weakness will represent good buying opportunities."

After the sacking of Mr Alexander Lebed, the controversial security chief, shares fell some 3 per cent on Thursday. But the market recovered on Friday, with the Russian Trading System index rising 1.5 per cent.

This has turned the spotlight on two share offerings in the international market: the sale of 23.7m American Depositary Shares in Gazprom, the world's largest gas company, which closed on Friday, and 5.24m ADS's in Vimpel-Communications, the country's largest provider of cellular telecommunications services, and the first Russian company to list on the New York Stock Exchange. Gazprom's offering was expected to raise some $350m, while Vimpel-Com's is worth about $90m.

"I don't think any investor in these shares was unaware of the fact that Russia is a risky country, so last week's events were unlikely to alter their decision to participate," says Mr James Cornish, European strategist at NatWest Markets.

Despite the latest political tumult, "we haven't changed our view on the Russian market," says Mr Philip Poole, ING Barings' head of research for eastern Europe and Russia. "The equity market still looks cheap relative to debt, and is well placed to rise further."

This is in part due to expected inflows of capital which are likely to boost the equity market's performance, he says. He expects domestic investors to shift more funds into the equity market as yields on Russian treasury bills continue to fall. On the international front, he says, fund managers are likely to substantially increase their exposure to Russia in early 1997.

Gazprom's share offering did not seem to have suffered overly from last week's events, being oversubscribed when book-building ended on Friday. Indeed, the upheaval may have helped. "Early last week, Gazprom was starting to look a bit frothy as a lot of low-quality, speculative accounts were showing interest," says one banker. However, Thursday's events "created enough uncertainty that most speculative accounts withdrew, leaving sensible investors who take a fairly sanguine view of Russia's political risk," he says.

Gazprom was priced and allocated over the weekend, amid expectations of a pricing around the top end of the indicated range of $14-$16 per ADS. Dresdner Kleinwort Benson and Morgan Stanley are joint global co-ordinators.

Vimpel-Com's offering is also beginning to attract interest, especially as it is the first Russian company to qualify for a NYSE listing, which requires three years of accounts meeting international accounting standards.

Roadshows start today in London, with pricing scheduled for the second week in November. The indicated price range is $15.75-$18.75 per ADS. Donaldson, Lufkin & Jenrette and Renaissance Capital are acting as joint global co-ordinators.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 18 1996: US Dollar Index	% chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY OCTOBER 17 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (78)	213.74	12.1	199.16	152.10	171.48	178.73	5.2	4.26	213.05	199.09	151.05	170.99	176.90	214.20	179.77	184.25
Austria (24)	180.86	3.6	168.55	128.71	145.10	144.98	11.7	1.94	180.24	168.43	127.79	144.65	144.55	195.04	168.35	199.05
Belgium (27)	217.18	5.8	202.35	154.53	174.20	170.27	12.2	3.92	216.54	202.35	153.52	173.78	169.78	221.99	191.12	191.12
Brazil (28)	189.10	26.4	175.27	133.82	150.86	354.78	43.8	1.80	188.00	175.68	133.29	150.66	354.56	189.70	123.97	150.57
Canada (116)	177.21	19.4	165.13	126.11	142.16	173.12	16.1	2.06	175.83	164.31	124.66	141.11	172.24	177.21	134.14	142.98
Denmark (33)	333.19	15.4	310.47	237.10	267.28	267.60	23.0	1.72	331.03	309.34	234.69	265.67	268.30	333.19	272.89	281.84
Finland (23)	220.85	17.9	205.80	157.01	177.00	213.61	25.2	2.34	217.39	203.14	154.12	174.46	210.29	250.72	171.73	250.72
France (93)	201.14	12.1	187.43	143.13	161.35	164.48	15.5	2.98	201.33	188.15	142.72	161.58	163.10	201.14	167.70	169.89
Germany (58)	180.25	10.1	167.96	128.27	144.60	144.60	18.7	1.71	179.12	167.38	126.99	143.75	143.75	190.37	165.86	169.88
Hong Kong (58)	469.29	21.1	437.38	334.08	376.54	465.06	21.1	3.28	466.64	436.05	330.84	374.50	463.24	470.59	354.87	386.06
Indonesia (27)	203.91	-	190.00	145.10	163.57	290.65	-	1.73	202.77	189.48	143.76	162.73	289.02	-	-	-
Ireland (16)	308.33	20.7	287.30	219.40	247.33	271.40	20.8	3.31	305.86	285.81	216.89	245.29	269.55	308.44	241.27	247.21
Italy (59)	77.63	5.3	72.34	55.24	62.27	89.04	2.0	2.31	76.53	71.52	54.26	61.42	88.07	84.53	67.22	72.14
Japan (480)	145.06	-8.4	135.18	103.24	116.38	103.24	2.2	0.74	144.56	135.09	102.49	116.02	102.49	164.68	137.75	143.05
Malaysia (107)	582.81	20.1	543.07	414.73	467.52	562.84	15.6	1.17	577.33	539.50	409.32	463.34	557.12	585.09	425.77	465.50
Mexico (27)	1233.35	19.1	1149.23	877.66	989.37	10411.58	19.3	1.32	1211.18	1131.81	858.70	972.03	10302.59	1325.65	791.99	1000.65
Netherland (19)	311.00	14.0	289.79	221.31	249.48	245.72	23.1	3.00	308.55	288.33	218.75	247.63	243.84	311.00	251.81	255.19
New Zealand (15)	92.97	16.7	86.63	66.16	74.58	69.90	8.1	3.92	91.64	85.64	64.97	73.55	69.48	92.97	75.94	81.97
Norway (35)	263.20	13.8	245.26	187.29	211.13	233.29	17.8	2.16	263.86	246.66	187.14	211.84	234.40	265.73	222.24	240.50
Philippines (22)	196.37	-	182.98	139.74	157.52	257.08	-	0.63	193.76	181.06	137.37	155.50	253.67	-	-	-
Singapore (43)	377.53	-7.3	351.78	268.65	302.85	246.18	-7.3	1.13	377.56	352.82	267.68	303.01	245.99	485.21	361.94	369.13
South Africa (44)	348.76	-10.0	325.11	246.76	278.17	345.16	12.4	2.22	346.12	325.31	246.81	279.38	345.88	437.78	314.20	358.82
Spain (37)	185.44	12.3	172.79	131.96	148.76	182.29	20.1	3.22	183.60	171.75	130.31	147.51	181.08	185.44	145.15	148.83
Sweden (48)	396.56	27.1	369.52	282.19	318.12	389.63	27.2	2.20	390.24	364.67	276.67	313.19	384.62	396.56	294.19	316.82
Switzerland (37)	244.85	3.6	227.87	174.02	196.18	192.99	14.6	1.63	244.72	228.69	173.50	196.40	192.50	254.34	219.07	221.90
Thailand (45)	116.04	-29.9	108.99	82.99	94.69	118.79	-29.0	2.94	115.41	107.85	81.82	92.62	114.17	193.95	112.17	165.36
United Kingdom (213)	259.37	15.2	241.68	184.57	208.08	241.68	9.8	3.90	258.03	241.13	182.94	207.08	241.13	259.37	222.29	227.31
USA (623)	289.37	15.2	269.64	205.92	232.13	289.37	15.2	2.05	287.94	269.07	204.14	231.09	287.94	289.37	236.38	240.71
Americas (718)	264.65	15.6	246.60	188.32	212.30	222.45	15.6	2.05	263.28	246.03	186.66	211.29	221.35	264.65	215.17	219.70
Europe (713)	223.82	11.4	208.56	159.27	179.55	195.21	14.8	2.64	222.38	207.81	157.66	178.47	194.20	223.82	191.44	194.77
Nordic (136)	337.46	20.2	314.44	240.13	270.70	292.32	25.1	2.14	333.26	311.42	236.27	267.46	289.31	337.46	261.13	290.82
Pacific Basin (876)	160.62	-2.6	149.67	114.30	128.85	115.59	3.8	1.21	159.98	149.49	113.42	128.39	114.61	177.01	148.86	154.02
Euro-Pacific (1594)	186.83	3.6	174.09	132.95	149.87	145.61	9.0	2.07	185.84	173.66	131.76	149.15	144.75	190.57	166.51	170.80
North America (739)	282.57	15.4	263.30	201.08	226.67	281.57	15.3	2.06	281.13	262.71	199.32	225.62	280.27	282.57	230.17	234.65
Europe Ex. UK (505)	199.95	10.6	186.32	142.29	160.40	168.01	17.9	2.37	198.51	185.50	140.74	159.31	166.86	200.05	176.31	173.26
Pacific Ex. Japan (396)	299.08	13.0	278.84	212.79	239.88	257.67	10.5	2.88	297.19	277.71	210.70	238.51	256.38	299.94	249.52	267.95
World Ex. US (1809)	188.68	4.3	175.82	134.27	151.36	150.61	9.7	2.07	187.69	175.39	133.07	150.63	149.74	181.55	167.36	172.03
World Ex. UK (2218)	216.41	8.4	201.65	154.00	173.60	185.40	12.2	1.87	215.30	201.19	152.64	172.79	184.33	216.41	185.61	189.77
World Ex. Japan (1952)	260.22	13.6	242.47	185.17	208.75	246.19	15.0	2.40	258.78	241.82	183.47	207.68	244.97	260.22	217.28	220.96
The World Index (2432)	220.11	8.8	205.10	156.63	176.57	190.50	12.0	2.06	218.98	204.63	155.25	175.74	189.47	220.11	188.87	188.08

LEGAL NOTICES

In the High Court of Justice No. [illegible] of 1996
Chancery Division
Companies Court

IN THE MATTER OF DESFORD TUBES LIMITED

and

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 3 October 1996 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-named Company by £36,174,000 from £39,790,000 to £3,617,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 30th day of October 1996.

Any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the under-mentioned Solicitors on payment of the regulated charge for the same.

Dated this 17th day of October 1996

Messrs Macfarlanes
10 Norwich Street
LONDON
EC4A 1BD
(Ref: ABBC/SPN/539950)
Telephone 0171 831 9222
Solicitors for the above-named Company

MARKETS: This Week

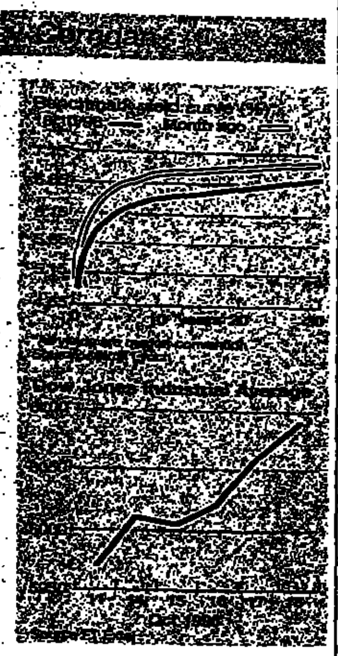
The US treasury market is likely to start the week on a positive note, following recent data confirming that the economy is slowing. With little influential data due this week, there should be nothing to shake the market's faith that no rise in interest rates is imminent.

In fact, some analysts now believe that the next move by the Federal Reserve could be to cut rates, although not until some way into next year. Still, this is a dramatic reversal of the conviction in the summer that rates were about to be increased.

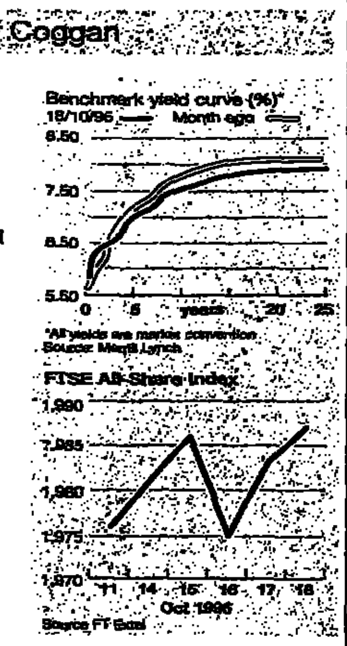
The only economic release of any substantial interest this week is September durable goods orders on Friday, forecast to rise 2 per cent, according to MMS International. For more significant data, the market will have to wait until next week, when third-quarter GDP numbers will be announced. These could provide more confirmation of a slowdown, thus offering further support for bond prices.

In this benign environment for bonds, the two-year and five-year Treasury note auctions on Tuesday and Wednesday should not pose much of a problem for the markets. But there is some concern that there will be a new source of bond supply on the market, as emerging market countries buy back their Brady bonds, and sell the underlying US Treasuries which were a component of these bonds.

Meanwhile, the stock market, having broken through the 6,000 point level on the Dow Jones Industrial Average ended the week close to 6,100; it may be looking for reasons to move further ahead, as the flow of third-quarter company results continues.



LONDON By Philip Coggan



The UK markets, particularly equities and shares, have been buoyant in recent weeks, but gilts took a bit of fright last week from the strong employment and average earnings data, which pointed to the scope for inflationary pressures.

The test for inflation phobics this week will come from the Confederation of British Industry industrial trends survey tomorrow, retail sales data on Wednesday and the preliminary estimate of third-quarter gross domestic product on Friday.

The consensus forecast for GDP growth is 0.8 per cent, up from 0.5 per cent in the second quarter.

Evidence of growing economic strength may put upward pressure on gilt yields.

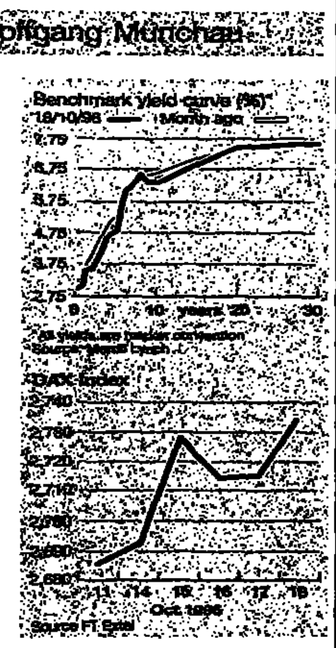
The recent rise in the oil price has helped fuel sterling's rally but some are pointing to the potentially inflationary implications if the crude price stays around $25 a barrel.

Equities continue to benefit from the buoyancy of Wall Street, from a modest stream of takeover bids and from the high level of cash in institutional coffers. Political risk is taking a back seat for the moment. The FTSE 100 index notched up another all-time high on Friday.

Having passed 4,000, the Footsie has matched, or surpassed, most analysts' forecasts for 1996 and some are pulling in their horns.

But the UK corporate sector seems healthy – the main results this week come from ICI and Wolseley – and it seems likely that some external shock, maybe from Wall Street or even from Russia, will be needed to drag down the market.

FRANKFURT By Wolfgang Münchau



This is about as euphoric as it can get in Germany. The Dax hit a record of 2,735 on Friday, falling marginally later in the day. Bonds remained strong, with the 10-year December futures contract ending the week at around 99.50.

The main underlying factors for the optimism are the relatively soft D-Mark exchange rate against the dollar (now at around DM1.54), further evidence of an economic recovery and the continued strength on Wall Street.

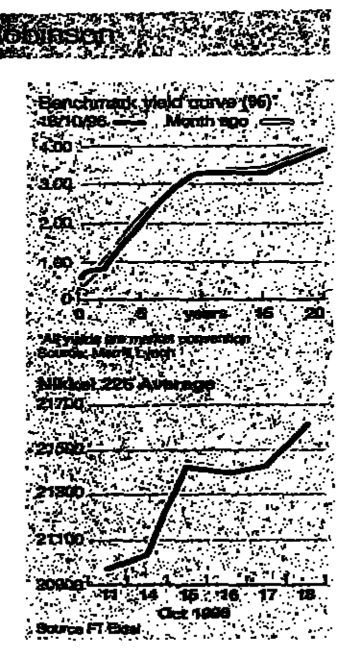
The political turbulence in Russia left the German markets uncharacteristically unaffected, and even expectations that M3 money supply will continue to expand above target for the rest of the year have had little effect.

The Bundesbank's central council meets on Thursday, but is not expected to change interest rates. German economists agree that a rise is still some time away, while only a few observers predict further cuts in the securities repurchase rate, now at 3 per cent.

One of the factors behind the optimism is exports, which have gone up by more than 20 per cent since the beginning of the year. The increase in the September Ifo confidence index, from 94.4 to 95.7, was based largely on a surge in exports – and a rise in domestic car sales – while the rest of the economy remains subdued. This is partly a reflection of the relatively weak D-Mark.

Strong car sales boosted stocks such as VW and Daimler-Benz. Daimler is back in favour because of further evidence of restructuring. The company is looking to merge with Mercedes-Benz, its car and truck unit.

TOKYO By Gwen Robinson



With a new government in place, markets will stay on the watch this week for concrete indications of policy changes and economic stimulus measures.

In the share market, expectations of a forthcoming stimulus package in the vicinity of Y4,000bn to Y5,000bn, promised before the election by the conservative LDP, are likely to buoy real estate-related issues and general contractors.

Similarly, growing pressure for the new government to proceed with planned deregulation in the finance and telecoms sectors will benefit related issues. The new government must also address further deregulation proposals, mapped out under the previous Hashimoto administration, in sectors including distribution, medical and welfare, housing and labour.

The share market's fluctuations in the week before the election showed that investors to a large extent remain unaffected by domestic politics, and that a more important element is the central bank's continued adherence to rock-bottom interest rates, said Mr Neil Rogers of UBS Securities.

Investors will also focus on the flurry of half-year earnings results that began last week. By the end of November, almost 1,500 companies, or more than 80 per cent of those listed on the stock exchange, will have reported their earnings for the April-September first half.

In the bond market, participants are waiting for confirmation of the new government's economic policies and an auction later in the week for the November issue of 10-year government bonds.

COMMODITIES

Russian disarray sparks surge

Signs of further disarray in the Russian government will be the main external focus for the commodities markets this week.

Oil and aluminium are particularly sensitive to political instability. When Mr Boris Yeltsin, the Russian president, sacked Mr Alexander Lebed, his chief of security, aluminium rose by $14 a tonne to $1,355 and crude oil prices firmed 21 cents to $24.15 a barrel.

Russia is a leader in the aluminium supply market and exports are expected to reach record levels this year. Analysts said the market last week had gone into a spate of panic buying by those with short positions on fears that the uncertainty in Russia could affect exports.

Oil prices are also prone to political jitters. Worries about Russia came on top of uncertainties in the Middle East. A continuation this week of the renewed inter-factional fighting in Kurdish areas of northern Iraq would signal further delays in the UN oil-for-food programme.

● Today the Common Fund for Commodities starts a three-day meeting in The Hague. The fund – an affiliate of the UN – was established in 1989 with the aim of stemming falls in world prices of primary commodities. The Amsterdam-based body, which now has more than 100 countries and the European Commission as members, will be discussing its future direction and alternative uses for its capital.

The fund has approved 42 projects covering 21 commodities. Six have been completed and 36 are under implementation. The projects have a financial worth of $393m, of which the fund provides roughly half.

"We concentrate on low cost, high impact projects, involving the private sector, which have a multiplier effect and will be sustainable beyond the Common Fund's involvement," said Mr Rolf Boehnke, the new managing director of the fund.

The October meeting is the last one before the eighth governing council, scheduled for early December in Morocco.

OTHER MARKETS Compiled by Michael Morgan

SCANDINAVIA

The Scandinavian stock markets have had a buoyant year, with Finland, Norway and Sweden rising by 23.4, 18.2 and 25.6 per cent respectively, *writes Philip Coggan*.

This week, some of the region's biggest companies will be announcing news that will show whether investors' faith has been repaid. Norsk Hydro, the Norwegian oil and gas group, should reap the benefit of the recent strength in the oil price; however J. P. Morgan says this will be offset by the effect of lower aluminium and PVC prices, and is predicting unchanged third-quarter operating profits of NKr2.7bn ($413.5m).

Volvo, the Swedish carmaker, will be reporting third-quarter figures on Wednesday, and NatWest Securities is looking for pre-exceptional operating figures of SKr1.5bn ($226m), down from SKr2.2bn.

Raisio, the Finnish food and chemicals group, will give a presentation on its cholesterol-reducing margarine, Benecol, which has helped fuel the recent sharp rise in the stock.

Meanwhile, the era of lower inflation and interest rates seems set to continue. Swedish inflation, 10.5 per cent in 1990, fell to 0.3 per cent in July this year. This has allowed the Riksbank to cut interest rates repeatedly; it is expected to reduce the repo rate again this week.

ZURICH

It will be the turn of the Novartis partners to step into the spotlight tomorrow as they publish their sales figures for the first nine months of the year. The shares of both Sandoz and Ciba have been sharp outperformers of the Swiss market since March, when the companies unveiled their unexpected fusion plans.

Roche, meanwhile, has been an underperformer over the same period, with investors said to be switching to Novartis. Last week, however, that trend was reversed in the light of an unexpectedly good nine-month sales report.

SMH, the watchmaker, is another stock to have found itself in the news, and the wars, after Standard and Poor's MarketScope research group issued a sell note, arguing that sales forecasts for the Swatchmobile, or Smart car, being developed in a joint venture with Mercedes-Benz might be wildly optimistic. That report prompted a downgrade from James Capel which also pointed to the disappointing stock market debut for Tag Heuer, the sporting watch group, as an added depressant on SMH. Last Friday, however, Bank Sal Oppenheim in Zurich weighed in with its own note, reiterating its positive recommendation on SMH. It forecast 1996 net profit growth of 37 per cent, followed by 25.2 per cent in 1997 and 10.3 per cent in 1998.

MILAN

Foreign investors are said to have been showing keen interest in the second-tranche placement of stock in Eni, the energy group, which begins today and is scheduled to continue until Friday. The Treasury is offering some 10 per cent of Eni, with some 235m shares being offered to Italian retail investors, 235m shares to institutional investors and 165m to investors in the US. A further 105m shares will be offered to institutions if demand is heavy.

MADRID

Spain's largest banks, which release earnings figures over the next two weeks, are expected to show similar earnings growth over the nine months to September 30 to that registered over the first half.

Analysts say that the bulk of profit growth will again come through treasury operations and commissions, together with lower non-performing loans.

CURRENCIES

Further signs of inflation may extend pound's rally

Sterling stepped into the market spotlight again last week, recording strong gains against both the D-Mark and the dollar due to a growing belief that UK short-term interest rates are not going to fall any further and may soon begin to rise again.

Economic data showing a tick up in underlying inflation and, last week, a large drop in unemployment, coupled with rising average earnings, fuelled speculation that interest rates might even rise before the election, expected next May.

This week's UK data – including retail sales, the Confederation of British Industry's latest manufacturing survey and third-quarter GDP figures – will be watched for further signs of economic strength. The pound could be pushed to new highs if there are any hints of inflationary pressures building.

The dollar shrugged off concerns last week about rising Japanese interest rates and worries about the US trade deficit.

A lack of economic data releases may mean the dollar could be in for a smoother ride this week. Durable goods orders released on Friday are expected to show a modest rebound last month.

But traders will also be looking to events in Russia. The sacking last week of Mr Alexander Lebed, the president's national security adviser, sent shock waves across the West's financial markets. It undermined the D-Mark, because of Germany's relative proximity to Russia, and lifted the dollar.

Any further signs that Russia is entering more troubled times are likely to worry investors and could again lift the dollar and the Swiss franc – traditionally the other safe haven currency.

Currency traders will also be watching events in Japan following the weekend elections there. The dollar slipped back early last week as investors began to suspect that interest rates might rise whoever won.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Sandoz (Switz)	Azupharma (Germany)	Pharmaceuticals	$420m	Gehe exits drug making
Aon Corporation (US)	Bain Hogg (UK)	Insurance servs	$250m	Ends disposals
Quebecor Printing (Canada)	AmerSig Graphics (US)	Printing	$135m	Consolidates position
Rosecliffe (US)	Albert Fisher units (UK)	Distribution	$115m	Ends disposals
Chartwell Re (US)	Archer (UK)	Insurance	$55m	Agreed cash bid
Pharma Vision (Switz)	Tularik (US)	Biotechnology	$33m	Fund takes 10%
Masters International (UK)	MacGregor Golf (US)	Sports goods	$20m	Amer sells loss-maker
Devro (UK)	Cutisin (Czech Rep)	Food casings	$18m	Offer for minority stake
SIG (UK)	Golinski Group (Germany)	Building materials	$17.5m	Completes takeover
British Airways (UK)	Air Liberté (France)	Airlines	$4.7m	Jobs pledge

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, October 18, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Country	Currency	£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7557.48	4750.00	3078.42	4219.41
Albania	(Lek)	171.983	108.100	70.0583	96.0249
Algeria	(Dinar)	89.1796	56.0506	36.3259	49.7897
Andorra	(French Fr)	8.2942	5.2130	3.3785	4.6307
	(Sp Peseta)	206.455	129.760	84.0959	115.265
Angola	(Readj Kwanza)(1)	321382.4	201994.0	130908.9	179430.6
Antigua	(E Carib $)	4.2958	2.7000	1.7498	2.3984
Argentina	(Peso)	1.5902	0.9995	0.6478	0.8878
Armenia	(Dram)	656.022o	412.320	267.220	366.263
Aruba	(Florin)	2.8480	1.7900	1.1601	1.5901
Australia	(Aus $)	2.0002	1.2572	0.8147	1.1167
Austria	(Schilling)	17.2717	10.8555	7.0353	9.6429
Azerbaijan	(Manat)	6730.14o	4230.00	2741.41	3757.50
Azores	(Port Escudo)	247.241	155.395	100.710	138.037
Bahamas	(Bahama $)	1.5911	1	0.6481	0.8883
Bahrain	(Dinar)	0.5999	0.3771	0.2444	0.3350
Balearic Is	(Sp Peseta)	206.455	129.760	84.0959	115.265
Bangladesh	(Taka)	67.1900	42.2300	27.3689	37.5128
Barbados	(Barb $)	3.2001	2.0113	1.3035	1.7866
Belarus	(Rouble)	30683.4o	19285.0	12498.4	17130.6
Belgium	(Belg Fr)	50.5875	31.7950	20.6060	28.2434
Belize	(B $)	3.1821	2.0000	1.2962	1.7766
Benin	(CFA Fr)	829.420	521.300	337.848	463.069
Bermuda	(Bermudian $)	1.5911	1	0.6481	0.8883
Bhutan	(Ngultrum)	56.7687	35.6800	23.1238	31.6944
Bolivia	(Boliviano)	8.2258	5.1700	3.3506	4.5925
Botswana	(Pula)	5.5929	3.5149	2.2780	3.1223
Brazil	(Real)	1.6304	1.0247	0.6641	0.9102
Brunei	(Brunei $)	2.2512	1.4149	0.9170	1.2569
Bulgaria	(Lev)	351.145	220.700	143.033	196.047
Burkina Faso	(CFA Fr)	829.420	521.300	337.848	463.069
Burma	(Kyat)	9.4403	5.9334	3.8454	5.2706
Burundi	(Burundi Fr)	352.905	221.807	143.750	197.030
Cambodia	(Riel)	3659.41	2300.00	1490.60	2043.08
Cameroon	(CFA Fr)	829.420	521.300	337.848	463.069
Canada	(Canadian $)	2.1464	1.3491	0.8743	1.1984
Canary Is	(Sp Peseta)	206.455	129.760	84.0959	115.265
Cp. Verde	(CV Escudo)	132.009	82.9700	53.7719	73.7020
Cayman Is	(CI $)	1.3177	0.8282	0.5368	0.7357
Cent. Afr. Rep	(CFA Fr)	829.420	521.300	337.848	463.069
Chad	(CFA Fr)	829.420	521.300	337.848	463.069
Chile	(Chilean Peso)	662.611	416.650	270.026	370.109
China	(Yuan)	13.2022	8.2978	5.3777	7.3709
Colombia	(Col Peso)	1616.11	1015.75	658.296	902.287
Comoros	(Fr)	621.901	390.875	253.322	347.213
Congo	(CFA Fr)	829.420	521.300	337.848	463.069
Costa Rica	(Colon)	341.240	214.475	138.999	190.517
Côte d'Ivoire	(CFA Fr)	829.420	521.300	337.848	463.069
Croatia	(Kuna)	8.6957	5.4654	3.5421	4.8549
Cuba	(Cuban Peso)	1.5911	1	0.6481	0.8883
Cyprus	(Cyprus £)	0.7452	0.4684	0.3035	0.4160
Czech Rep.	(Koruna)	43.4405	27.3030	17.6948	24.2532
Denmark	(Danish Krone)	9.4024	5.9095	3.8299	5.2494
Djibouti Rep	(Djib Fr)	262.523	165.000	106.935	146.569
Dominica	(E Carib $)	4.2958	2.7000	1.7498	2.3984
Dominican Rep	(D Peso)	21.9247	13.7800	8.9307	12.2407
Ecuador	(Sucre)	5321.28o	3344.50	2167.53	2970.91
	(Sucre)	5321.28a	3344.50	2167.53	2970.91
Egypt	(Egyptian £)	5.4076	3.3989	2.2027	3.0191
El Salvador	(Colon)	13.6114	8.5550	5.5444	7.5994
Equat'l Guinea	(CFA Fr)	829.420	521.300	337.848	463.069
Estonia	(Kroon)	19.6126	12.3270	7.9890	10.9500
Ethiopia	(Ethiopian Birr)	9.5463	6.0000	3.8885	5.3296
Falkland Is	(Falk £)	1	0.6285	0.4073	0.5583
Faroe Is	(Danish Krone)	9.4024	5.9095	3.8299	5.2494
Fiji Is	(Fiji $)	2.2175	1.3937	0.9033	1.2381
Finland	(Markka)	7.3395	4.6130	2.9896	4.0977
France	(Fr)	8.2942	5.2130	3.3785	4.6307
Fr. Cty/Africa	(CFA Fr)	829.420	521.300	337.848	463.069
Fr. Guiana	(Local Fr)	8.2942	5.2130	3.3785	4.6307
Fr. Pacific Is	(CFP Fr)	150.730	94.7363	61.3975	84.1540
Gabon	(CFA Fr)	829.420	521.300	337.848	463.069
Gambia	(Dalasi)	15.6656	9.8463	6.3812	8.7464
Germany	(D-Mark)	2.4550	1.5430	1	1.3706
Ghana	(Cedi)	2712.74	1705.00	1104.99	1514.55
Gibraltar	(Gib £)	1	0.6285	0.4073	0.5583
Greece	(Drachma)	383.650	241.130	156.274	214.195
Greenland	(Danish Krone)	9.4024	5.9095	3.8299	5.2494
Grenada	(E Carib $)	4.2958	2.7000	1.7498	2.3984
Guadaloupe	(Local Fr)	8.2942	5.2130	3.3785	4.6307
Guam	(US $)	1.5911	1	0.6481	0.8883
Guatemala	(Quetzal)	9.6601	6.0715	3.9349	5.3933
Guinea	(Fr)	1614.92	1015.00	657.810	901.621
Guinea-Bissau	(Peso)	28686.2	18030.0	11685.9	16021.3
Guyana	(Guyanese $)	220.687	138.600	90.0194	123.384
Haiti	(Gourde)	24.0228	15.0987	9.7853	13.4121
Honduras	(Lempira)	19.2040	12.0700	7.8224	10.7217
Hong Kong	(HK $)	12.3021	7.7321	5.0111	6.8684
Hungary	(Forint)	248.753	156.345	101.326	138.881
Iceland	(Icelandic Krona)	107.173	67.3600	43.6552	59.8357
India	(Indian Rupee)	56.7687	35.6800	23.1238	31.6944
Indonesia	(Rupiah)	3696.80	2323.50	1505.83	2063.96
Iran	(Rial)	4773.15u	3000.00	1944.26	2664.89
Iraq	(Iraqi Dinar)	0.4947o	0.3109	0.2015	0.2762
Iraq	(Iraqi Dinar)	2704.79m	1700.00	1101.75	1510.10
Irish Rep	(Punt)	0.9940	0.6247	0.4049	0.5549
Israel	(Shekel)	5.1998	3.2682	2.1181	2.9031
Italy	(Lira)	2443.81	1535.85	995.368	1364.28
Jamaica	(Jamaican $)	54.0957	34.0000	22.0350	30.2021
Japan	(Yen)	179.113	112.575	72.9585	100
Jordan	(Jordanian Dinar)	1.1293	0.7098	0.4600	0.6305
Kazakhstan	(Tenge)	111.469	70.0600	45.4051	62.2341
Kenya	(Kenya Shilling)	88.7010	55.7500	36.1309	49.5225
Kiribati	(Australian $)	2.0002	1.2572	0.8147	1.1167
Korea North	(Won)	3.4206	2.1500	1.3934	1.9098
Korea South	(Won)	1316.28	827.300	536.163	734.888
Kuwait	(Kuwaiti Dinar)	0.4773	0.3000	0.1944	0.2665
Laos	(New Kip)	1463.77	920.000	596.241	817.233
Latvia	(Lats)	0.8779	0.5518	0.3576	0.4901
Lebanon	(Lebanese £)	2477.27	1557.00	1009.07	1383.06
Lesotho	(Maluti)	7.2457	4.5540	2.9514	4.0453
Liberia	(Liberian $)	1.5911	1	0.6481	0.8883
Libya	(Libyan Dinar)	0.5656	0.3555	0.2304	0.3158
Liechtenstein	(Swiss Fr)	2.0253	1.2729	0.8250	1.1307
Lithuania	(Litas)	6.3642	4.0000	2.5924	3.5532
Luxembourg	(Lux Fr)	50.5875	31.7950	20.6060	28.2434
Macao	(Pataca)	12.7085	7.9875	5.1766	7.0953
Macedonia	(Denar)	65.2012	40.9800	26.5587	36.4024
Madagascar	(MG Fr)	6284.65	3950.00	2559.95	3508.77
Madeira	(Port Escudo)	247.241	155.395	100.710	138.037
Malawi	(Kwacha)	24.3906	15.3300	9.9352	13.6176
Malaysia	(Ringgit)	3.9896	2.5075	1.6251	2.2274
Maldive Is	(Rufiya)	18.7267	11.7700	7.6280	10.4553
Mali Rep	(CFA Fr)	829.420	521.300	337.848	463.069
Malta	(Maltese Lira)	0.5815	0.3655	0.2369	0.3247
Martinique	(Local Fr)	8.2942	5.2130	3.3785	4.6307
Mauritania	(Ouguiya)	220.862	138.815	89.9644	123.309
Mauritius	(Maur Rupee)	32.8393	20.6400	13.3765	18.3344
Mexico	(Mexican Peso)	12.2845	7.7210	5.0039	6.8585
Miquelon	(Local Fr)	8.2942	5.2130	3.3785	4.6307
Moldova	(Leu)	7.3268	4.6050	2.9845	4.0906
Monaco	(French Fr)	8.2942	5.2130	3.3785	4.6307
Mongolia	(Tugrik)	742.495	466.670	302.443	414.541
Montserrat	(E Carib $)	4.2958	2.7000	1.7498	2.3984
Morocco	(Dirham)	14.0350	8.8212	5.7169	7.8359
Mozambique	(Metical)	17725.8	11141.0	7220.35	9896.51
Namibia	(S A Rand)	7.2457	4.5540	2.9514	4.0453
Nauru Is	(Australian $)	2.0002	1.2572	0.8147	1.1167
Nepal	(Nepalese Rupee)	88.7405	55.7750	36.1471	49.5448
Netherlands	(Guilder)	2.7542	1.7311	1.1219	1.5377
N'nd Antilles	(A/Guilder)	2.8480	1.7900	1.1601	1.5901
New Zealand	(NZ $)	2.2528	1.4159	0.9176	1.2578
Nicaragua	(Gold Cordoba)	13.7355	8.6330	5.5950	7.6687
Niger Rep	(CFA Fr)	829.420	521.300	337.848	463.069
Nigeria	(Naira)	35.0031o	22.0000	14.2579	19.5425
	(Naira)	126.960m	79.7960	51.7146	70.8825
Norway	(Nor. Krone)	10.3886	6.5294	4.2316	5.8000
Oman	(Rial Omani)	0.6126	0.3850	0.2495	0.3420
Pakistan	(Pak. Rupee)	58.7623	36.9330	23.9358	32.8075
Panama	(Balboa)	1.5911	1	0.6481	0.8883
Papua New Guinea	(Kina)	2.1314	1.3396	0.8682	1.1900
Paraguay	(Guarani)	3309.38	2080.00	1348.02	1847.66
Peru	(New Sol)	4.0628	2.5535	1.6549	2.2683
Philippines	(Peso)	41.7969	26.2700	17.0253	23.3356
Pitcairn Is	(£ Sterling)	1	0.6285	0.4073	0.5583
	(NZ $)	2.2528	1.4159	0.9176	1.2578
Poland	(Zloty)	4.5115	2.8355	1.8377	2.5188
Portugal	(Escudo)	247.241	155.395	100.710	138.037
Puerto Rico	(US $)	1.5911	1	0.6481	0.8883
Qatar	(Riyal)	5.7914	3.6400	2.3590	3.2334
Reunion Is. de la	(F Fr)	8.2942	5.2130	3.3785	4.6307
Romania	(Leu)	5263.99	3308.50	2144.20	2938.93
Russia	(Rouble)	8652.13m	5438.00	3524.30	4830.56
Rwanda	(Fr)	525.778	330.460	214.167	293.547
St Christopher	(E Carib $)	4.2958	2.7000	1.7498	2.3984
St Helena	(£)	1	0.6285	0.4073	0.5583
St Lucia	(E Carib $)	4.2958	2.7000	1.7498	2.3984
St Pierre	(French Fr)	8.2942	5.2130	3.3785	4.6307
St Vincent	(E Carib $)	4.2958	2.7000	1.7498	2.3984
San Marino	(Italian Lira)	2443.81	1535.85	995.368	1364.29
Sao Tome	(Dobra)	3794.88	2385.13	1545.77	2118.70
Saudi Arabia	(Riyal)	5.9669	3.7503	2.4305	3.3314
Senegal	(CFA Fr)	829.420	521.300	337.848	463.069
Seychelles	(Rupee)	7.9624	5.0045	3.2434	4.4455
Sierra Leone	(Leone)	1384.21	870.000	563.837	772.818
Singapore	($)	2.2512	1.4149	0.9170	1.2569
Slovakia	(Koruna)	49.8301	31.3190	20.2975	27.8206
Slovenia	(Tolar)	222.976	140.144	90.8257	124.490
Solomon Is	($)	5.6325	3.5401	2.2943	3.1447
Somali Rep	(Shilling)	4168.56	2620.00	1697.99	2327.34
South Africa	(Rand)	7.2457	4.5540	2.9514	4.0453
Spain	(Peseta)	206.455	129.760	84.0959	115.265
Spanish Ports in N Africa	(Sp Peseta)	206.455	129.760	84.0959	115.265
Sri Lanka	(Rupee)	90.8093	57.0750	36.9895	50.6995
Sudan Rep	(Dinar)	233.089	146.500	94.9449	130.136
Surinam	(Guilder)	652.330	410.000	265.716	364.202
Swaziland	(Lilangeni)	7.2457	4.5540	2.9514	4.0453
Sweden	(Krona)	10.5596	6.6369	4.3013	5.8955
Switzerland	(Fr)	2.0253	1.2729	0.8250	1.1307
Syria	(£)	66.7445	41.9500	27.1873	37.2641
Taiwan	($)	43.7539	27.5000	17.8224	24.4282
Tanzania	(Shilling)	938.719	590.000	382.372	524.095
Thailand	(Baht)	40.5589	25.4925	16.5214	22.6449
Togo Rep	(CFA Fr)	829.420	521.300	337.848	463.069
Tonga Is	(Pa'anga)	2.0002	1.2572	0.8147	1.1167
Trinidad/Tobago	($)	9.5944	6.0302	3.9081	5.3566
Tunisia	(Dinar)	1.5639	0.9826	0.6368	0.8728
Turkey	(Lira)	151847.0	95312.5	61770.9	84665.8
Turks & Caicos	(US $)	1.5911	1	0.6481	0.8883
Tuvalu	(Australian $)	2.0002	1.2572	0.8147	1.1167
Uganda	(New Shilling)	1718.39	1080.00	699.935	959.350
Ukraine	(Hryvna)(2)	2.8103	1.7663	1.1447	1.5690
U A E	(Dirham)	5.8440	3.6730	2.3804	3.2627
United Kingdom	(£)	1	0.6285	0.4073	0.5583
United States	(US $)	1.5911	1	0.6481	0.8883
Uruguay	(Peso Uruguayo)	13.4603	8.4600	5.4828	7.5150
Vanuatu	(Vatu)	176.416	110.880	71.8600	98.4943
Vatican	(Lira)	2443.81	1535.85	995.365	1364.29
Venezuela	(Bolivar)(2)	749.783v	471.250	305.412	418.610
Vietnam	(Dong)	17609.9	11067.5	7172.72	9831.22
Virgin Is-British	(US $)	1.5911	1	0.6481	0.8883
Virgin Is-US	(US $)	1.5911	1	0.6481	0.8883
Western Samoa	(Tala)	3.8920	2.4462	1.5854	2.1730
Yemen (Rep of)	(Rial)	206.836r	130.000	84.2515	115.479
Yugoslavia	(New Dinar)	8.0227	5.0424	3.2679	4.4792
Zaire Rep	(Zaire)	120015.2	75431.5	48886.3	67005.6
Zambia	(Kwacha)	2019.04	1269.00	822.424	1127.25
Zimbabwe	($)	17.0695	10.7278	6.9526	9.5296
ECU	(ECU)	1.2772	0.8027	0.5202	0.7131
SDR	(SDR)	1.10460	0.685943	0.452057	0.821089

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate; (t) Tourist rate; (u) Currency fixed against the US Dollar; (v) Floating rate. (1) Angolan Readjusted Kwanza devalued on 4/3/96. (2) Two tier rate replaced by floating Venezuelan Bolivar 22/4/96; Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 45p/minute cheap rate, 50p/minute at all other times. Friday, October 18, 1996

EMERGING MARKETS By Matthew Kaminski

Lithuania poll proves untimely

Conservatives are considered good for business everywhere except, it seems, in eastern Europe.

If, as expected, centre-right parties make a strong showing when the results of yesterday's Lithuanian parliamentary elections become clear today, investors in the Baltic country may have reason to be nervous about the direction of economic policy.

The conservative Homeland Union, ahead in the last of the pre-election polls, left open a possible devaluation of the litas, which has been pegged to the dollar by a currency board. A second wave of privatisations might also be put in doubt.

The election's timing could have been better. The usually dormant Lithuanian equities market has shown signs of life since late-July, with Mr Boris Yeltsin's election triumph in neighbouring Russia also reviving confidence. Foreign investors flocked back to the Baltics, with confidence further bolstered when the ruling ex-communist government in Vilnius quashed rumours about a devaluation.

The market has performed strongly over the past three months. An index of 10 Lithuanian stocks compiled by Suprema, a Vilnius brokerage, rose from under 650 in mid-July to 1,135 last month.

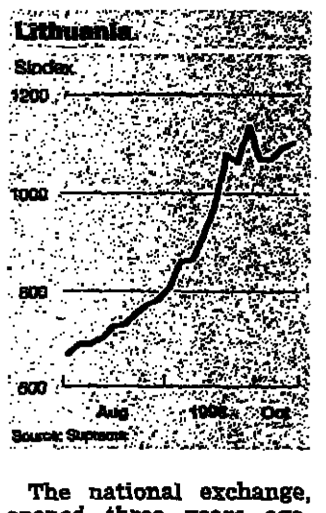
However, the country's developing financial markets have a keen political antenna for any change in direction which could have repercussions on the fragile economy.

But whatever coalition government emerges, Lithuania will not be back at square one. Strict agreements with international lenders lock in any successor government to the path of reform.

"Let's see who they choose to run the economy," says Mr Aidas Galubickas, managing director of Suprema. "The Homeland party is sometimes too populist, but it seems like they have been more seriously thinking about monetary and fiscal policy recently."

The likelihood is that the recent interest in equities will not wane. The debt market – which ballooned when Vilnius decided to salvage the two largest commercial banks last winter – no longer provides bountiful returns. Yields on three-month Treasury bills dropped from 45 per cent at the beginning of the year to around 10 per cent.

"[Owning] fixed income is a good opportunity just to do nothing," says Mr Galubickas. "Now investors will have to start to earn their money."



The national exchange, opened three years ago, includes some 400 companies that emerged from the country's mass privatisation programme. Most are lame ducks. Weekly volumes average just $500,000 and only a handful of stocks are actively traded. The exchange in Estonia, by contrast, reports daily volumes of between $350,000 and $1m, and lists only five securities.

Lithuania's newly-privatised factories were not recapitalised as ownership was transferred with free vouchers. New directors, often the same as the old, are loath to share financial information, while standardised accounting procedures are missing.

The employees themselves – the privatisation scheme created 2m shareholders out of a population of 3.7m – are only slowly becoming inclined to sell their shares, says one analyst.

But there are several strong stocks. Twenty of the more liquid shares are on the so-called A list. The exchange plans to introduce an official list, with stricter disclosure requirements for issuers.

As in most emerging markets, the exchange is heavily weighted toward banks. Financial services, built up from nothing, have developed quickly in all three Baltic countries. Vilnius Bank, 30 per cent-owned by foreign investors, is the most liquid stock, and the market barometer. When its shares began their rise in June, most other equities followed.

However, the semi-annual results from Hermes, another commercial bank, were better than Vilnius': with a p/e ratio of 0.59, Hermes might be the cheapest buy, says Mr Galubickas.

Breweries are another buoyant sector. Ragutis, which reported earnings per share of Lt3.57 ($0.89) in the first half of the year, is also regarded as undervalued, in spite of a rise in its share price from Lt3.5 this summer to Lt6.5: its p/e ratio is 2.77. Brokers were cheered, too, when Plzensky Prazdroj of the Czech Republic took a 35 per cent stake in Ragutis.

Kalnapilis, the second-largest brewery, demonstrates the benefits of the foreign investment which is still, largely, in short supply in Lithuania. Pripps-Hartwell, a consortium of Swedish and Finnish brewers, invested $10m in Kalnapilis, and its market share grew from 11 per cent in 1994 to 14.6 per cent in 1995. Net profits rose from Lt2.7m to Lt4.2m in the same period.

Most of the action is still in the money markets. Foreign capital makes up 40 per cent of the Lt1.3bn ($325m) fixed income market. Last month, Moody's gave Lithuania a relatively favourable foreign currency debt rating of Ba2, making it the first former Soviet republic to get a rating.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	18/10/96	Week on week movement Actual	Per cent	Month on month movement Actual	Per cent	Year to date movement Actual	Per cent
World (446)	160.86	-0.35	-0.22	-0.36	-0.22	+13.32	+9.03
Latin America							
Argentina (22)	97.82	-3.48	-3.44	+2.58	+2.70	+4.85	+5.23
Brazil (23)	253.80	+3.60	+1.44	+7.40	+3.00	+67.70	+36.38
Chile (16)	190.63	-2.86	-1.48	-4.12	-2.21	-5.03	-2.57
Colombia (13)	174.87	-0.15	-0.09	+5.67	+3.35	+10.62	+6.47
Mexico (27)	82.12	-2.93	-3.44	-3.35	-3.92	+8.52	+11.58
Peru (12)	1147.69	-4.86	-0.40	-23.75	-2.03	+78.74	+7.37
Venezuela (6)	61.02	-1.73	-2.75	+10.90	+21.75	+33.52	+121.84
Latin America (119)	144.10	-1.45	-1.00	+1.08	+0.76	+20.96	+17.02
Europe							
Czech Rep.(14)	101.51	-1.48	-1.44	-9.97	-8.95	+25.21	+33.04
Greece (20)	115.28	-4.55	-3.80	-3.00	-2.54	+17.31	+17.67
Poland (25)	381.04	-8.96	-2.42	-12.46	-3.34	+159.89	+79.49
Portugal (18)	136.39	-1.28	-0.93	-2.67	-1.92	+19.93	+17.12
South Africa (30)	140.83	-2.11	-1.48	-2.29	-1.60	-12.55	-8.18
Turkey (27)	120.27	+6.08	+5.32	+17.54	+17.08	+37.47	+45.25
Europe (134)	123.06	-1.46	-1.17	-1.48	-1.19	+1.53	+1.26
Asia							
China (26)	45.74	-0.29	-0.63	+1.85	+4.22	+5.42	+13.44
Indonesia (30)	139.66	-0.78	-0.54	+1.08	+0.78	+1.01	+0.73
Korea (23)	104.70	+0.10	+0.09	+4.49	+4.48	-32.20	-23.52
Malaysia (24)	269.56	+8.44	+3.23	+12.20	+4.74	+42.19	+18.56
Pakistan (13)	68.49	+0.03	+0.04	-3.04	-4.24	-5.10	-6.93
Philippines (18)	311.17	+13.60	+4.57	-23.68	-7.07	+52.01	+20.07
Taiwan (31)	174.97	-3.96	-2.21	-4.60	-2.56	+44.14	+33.74
Thailand (28)	179.28	+3.06	+1.73	-21.18	-10.56	-72.61	-28.83
Asia (193)	215.14	+2.11	+0.99	-1.38	-0.64	+12.10	+5.96

All indices in $ terms. January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Richard Adams and Samer Iskandar

Investors look to offset swings linked to Emu

No-one ever got poor taking a profit according to the old stock market axiom – but the recent course of convergence trades in European government bond markets is making it hard to find profits to take.

The so-called high-yield convergence trend, which has been a dominant theme in European bond markets in recent weeks, appeared to stumble last Wednesday when Italian 10-year bond yields moved away from those of German bunds by 12 basis points, to 244 points. Other high-yielders also underperformed. Spain and Sweden, for example, saw their 10-year yield spreads over bunds widen by 15 and 6 basis points, respectively, to 185 and 121 points.

Although the jitters proved to be short-lived – the Italian spread had tightened back in to 238 basis points by the end of the week – it has made some investors nervous.

The markets are now balancing possible alternative courses. On the one hand, bullish economic fundamentals augur well for a further fall in Italian bond yields.

Ms Alison Cottrell, international economist at PaineWebber in London, said Italy's recent success in fighting inflation and cutting its budget deficit were bound to drive yields down, regardless of Emu-related bullishness.

She believes that this, coupled with continuing strong domestic demand for government paper, will continue pushing the spread of BTPs over bunds lower.

On the other hand, continuing fears over German opposition to Italian membership of Emu as a founding member could cause further wobbles.

The difficulties of BTPs and the lira in the middle of last week were attributed to the weight of criticism coming from Bundesbank officials over the past fortnight.

Bundesbank officials, including Mr Hans Tietmeyer, the president, and Mr Otmar Issing, the chief economist, have made a series of comments warning against first-round membership of Emu by the high-yielding European markets, such as Spain and Italy.

In these circumstances, it is not surprising that some banks are examining ways in which investors can hedge against a sharp retracement of the convergence, while maintaining an exposure to benefits from the possible continuation of the trend.

Goldman Sachs, the US investment bank, said last week: "We are not expecting a major trend reversal, but for several reasons we think the rally has become over-extended, and that trades to protect against a correction should be considered."

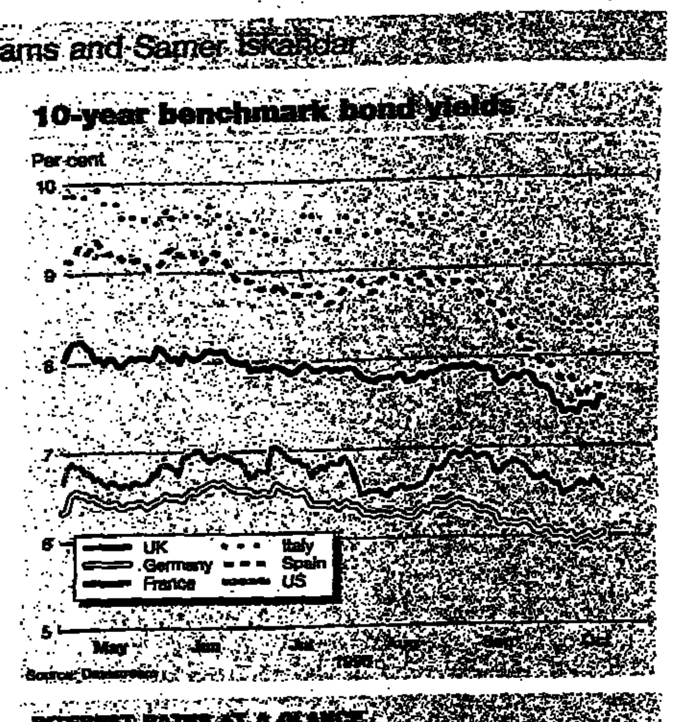
It suggested three possible protection strategies, all of which involve an element of financial engineering.

● The most straightforward is the purchase of a six-month call option on the 10-year Italy-Germany swap spread – the size of which is a direct function of the yield spread between benchmark bond yields in the two markets – at 250 basis points, while selling a six-month put option on the same spread at 125 basis points. Since the swap spread is currently at about 200 basis points, this strategy would be profitable if the swap spread widens to more than 250 basis points, with gains offsetting the losses on the holdings of cash bonds. Its risk is limited on the downside since the spread would have to narrow by more than 75 basis points before the investor starts to lose money. One of the main attractions of this trade is that it is designed to cost the investor nothing: the proceeds from the sale of the put option offset the costs of buying the call.

● Another strategy recommended by Goldman involves buying a three-month put option on a BTP maturing in February 2006 – which last week was yielding 8.29 per cent – and selling a three-month put option on a German bund which matures in April of the same year and was last week yielding 6.02 per cent. The put option on the BTP protects against a widening in the spread, while the put option on the bunds limits the extent to which the investor will gain from a narrowing in the spread. The overall effect is to partially lock in profits made so far on the convergence. In return, the investor gives up some of the potential for future gains should convergence continue.

● A third strategy is also suggested. It achieves a similar objective through the use of more technical over-the-counter derivatives, involving options on swaps. Although complex to set up, it offers the advantage of costing the investor nothing.

Some analysts argue that the price to pay for hedging in this market is too high in terms of opportunity cost should the high-yield rally continue. But others insist most traders can now afford it. After all, since the end of August, yields on 10-year BTPs have fallen by more than 120 basis points, and their spread over bunds has tightened by nearly one full percentage point.



INTEREST RATES AT A GLANCE

	USA	Japan	[illegible]	[illegible]	[illegible]	[illegible]
Discount	5.00	0.50	[illegible]	[illegible]	[illegible]	[illegible]
Overnight	5.06	0.44	[illegible]	[illegible]	[illegible]	[illegible]
Three month	5.10	0.48	[illegible]	[illegible]	[illegible]	[illegible]
One year	5.51	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five year	6.23	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ten year	6.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

(1) Franco-Repo rate. (2) UK-Base rate. Source: Reuters

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
European Investment Bank	1bn	Nov 2026	zero	13.362R	6.939	-	Salomon Brothers Intl
Trans Tokyo Bay Highway	200	Nov 2006	6.875	99.539R	6.940	+29(6½Oct06)	Tokyo-Mitsubishi Intl
WestLB Finance Curaçao	200	Nov 2000	6.25	99.69R	6.343	+8(f)	WestLB
JG Summit Philippines	200	May 2002	8.00#	99.53R	8.100	+180(j)	ING Barings
PPF, Tranche A(d)‡	98.8	Nov 2001	(d1)	100.00R	-	-	Bankers Trust/Lehman
Bank Audi	100	Nov 2001	9.375#	99.824R	9.420	+315(6⅝Sep01)	Merrill Lynch Intl
Lehman Brothers Holdings‡	250	Nov 2000	(n)	99.731R	-	-	Lehman Brothers Intl
Nordbanken(o)‡	100	undated	(o1)	99.73R	-	-	Chase Manhattan Intl
OPP Petroquimica(s)	100	Oct 2004	11.00#	99.899R	10.91	+460(6⅞%-01)	CS First Boston
World Bank(q)	100	Nov 1999	(q1)	100.00R	-	-	Sanwa International
Centwest	75	Dec 1999	6.375	100.1875R	6.304	+13(6%Aug99)	Kredietbank Intl Group
Toyota Motor Credit Corp	500	Oct 2001	6.50	99.99R	6.502	+11(M 5yr)	CSFB/Nomura Intl
Ford Brazil(z)	300	Nov 2004	9.125#	99.70R	9.709	+283(M 5yr)	ABN Amro Hoare Govett
Merrill Lynch & Co(s)	150	Dec 1999	6.375	99.634R	6.441	+26(6%Aug99)	Merrill Lynch & Co
SüdwestLB Capital Markets	750	Nov 2001	6.375	99.685R	6.451	+14(M 5yr)	CSFB/Goldman Sachs
National Australia Bank‡	500	Nov 1998	(B)	99.948	-	-	BZW
Province of Ontario★	60	Nov 1999	6.00	100.00	6.000	-	Salomon Brothers Intl
D-MARKS							
Nederlandse Gasunie	200	Nov 2001	2.50	90.04R	4.787	+10(5%May01)	ABN Amro Hoare Govett
World Bank	1bn	Nov 2016	zero	27.53R	6.662	flat(6%-16)	Deutsche Morgan G'fell
Rabobank Nederland(e)	500	Oct 2026	zero	12.978R	7.043	+22(6¼%-24)	Morgan Stanley Bank
Coca-Cola Amatil	300	Nov 2001	5.00	99.836R	5.038	+40(5%May01)	Morgan Stanley Bank
Brazil Investment Bonds(f,s)	150	Apr 2009	12.75	98.00R	13.21	-	Merrill Lynch (Deutsch)
Sparc Euty(s)	100	Apr 2005	11.90	99.50R	12.02	+673(7¼Oct02)	UBS Germany
Merrill Lynch Intl & Co(A)	150	Nov 2000	zero	100.00	-	-	Merrill Lynch (Deutsch)
SWISS FRANCS							
BIG(g)★	150	Nov 2003	3.75	102.50	3.344	-	Credit Suisse
Daishinku Corp(h)◆★	100	Oct 2000	0.375	100.00	-	-	SBC Warburg
Daido Hoxan(y)◆★	80	Oct 2000	0.50	100.00	-	-	Credit Suisse
STERLING							
Bank of Scotland(j)	150	undated	8.375	99.11R	8.511	+92(7½%-06)	BZW/Merrill Lynch
Finnish Export Credit(j)	100	Dec 2000	6.75	99.398R	6.929	+11½(8%-00)	Hambros Bank
Abbey Nat'l Trsy Services(t)	250	Aug 1999	6.00	98.057R	6.781	+21(6%Aug99)	Salomon Brothers Intl
European Inv'ment Bank(u)	200	Dec 2003	7.00	98.433R	7.294	+3(8%-03)	SBC Warburg
Bank of Scotland Treasury(s)	100	Dec 1999	6.75	99.432R	6.97	+35(6%Aug99)	Dresdner-KB
Eurofima(s)	160	Dec 2003	7.25	99.103R	7.478	+10(8%-03)	Merrill Lynch Intl
Province du Quebec	150	Nov 2011	8.625	98.644R	8.791	+73(9%-12)	SBC Warburg
Bank Austria	100	Nov 2011	8.375	98.968R	8.499	+45(9%-12)	SBC Warburg
LB Schleswig-Holstein(l)	100	Dec 2000	7.00	99.56R	7.119	+10(8%Dec00)	Daiwa/HSBC Markets
Dresdner Finance(F,s)	50	Dec 2001	7.125	99.547R	7.241	+10(7%-01)	BZW/Dresdner-KB
GUILDERS							
LB Rheinland-Pfalz	110	Dec 2003	(a)	99.705R	5.580	+1.5(i)	Kredietbank Intl Group
Bayerische Landesbank(f)	250	Dec 2001	4.875	99.77R	4.924	+8(8¾%Sep01)	ABN Amro Hoare Govett
FRENCH FRANCS							
SüdwestLB Capital Markets	2bn	Nov 2007	6.00	99.278R	6.092	+12(l)	CDC/SocGen
BNI Bank International	2bn	Nov 2002	5.375	99.505R	5.474	+28(l)	Crédit Agricole
Barclays Bank	2bn	Nov 2005	6.00	99.728R	6.040	+20(7¾Oct05)	Cie Financière BZW
Bayerische Landesbank(v)	1bn	Nov 2011	zero	36.35R	6.979	+37(strips)	JP Morgan & Co
DePfa Finance	1.5bn	Nov 2008	6.375	99.918R	6.385	+25(8½Oct08)	BNP
LUXEMBOURG FRANCS							
Landesgirokasse	3bn	Feb 2003	zero	73.90	5.027	-	BGL/BIL
ITALIAN LIRE							
Cariplo, London Branch(b)	600bn	Nov 2011	zero	29.915	8.378	-	Cariplo
World Bank	300bn	Nov 2003	7.625	101.58	7.332	-	Banco MPS/BNL
KfW International Finance	200bn	Nov 2002	7.625	101.725	7.260	-	Credito Italiano/Paribas
Republic of Argentina	500bn	Nov 2003	11.00	99.483R	11.11	-	SBC Warburg
LKB Baden Württemberg	300bn	Nov 2003	7.80	101.472	7.522	-	IMI Bank Luxembourg
European Inv'ment Bank(w)	200bn	Nov 2001	7.55	101.95	7.073	-	San Paolo, Turin
Council of Europe	200bn	Nov 2001	7.50	101.835	7.052	-	SBC Warburg
Morgan Guaranty Trust Co‡	300bn	Nov 1998	(E)	100.18	-	-	BCI/Cariplo/JP Morgan
Abbey Nat'l Trsy Services(G)	100bn	Nov 2001	7.625	101.095	7.355	-	Credito Italiano
European Inv'ment Bank(G)	500bn	Oct 2011	zero	31.20	8.074	-	IMI Bank Luxembourg
DSL Bank(H)	100bn	Nov 2006	8.00	100.90	7.867	-	San Paolo, Turin
AUSTRALIAN DOLLARS							
National Australia Bank	100	Nov 2001	7.50	101.525	7.127	-	Hambros Bank
PESETAS							
Council of Europe(k)	10bn	Nov 2007	(k1)	101.00	7.88	-	BNA/BNP/Multiactivos
AUSTRIAN SCHILLINGS							
Asian Dev Bank, Series B(D)	1bn	Oct 2001	8.25	100.25	8.187	-	Creditanstalt Inv Bank
ESCUDOS							
BA Credit Card Corp‡	7.5bn	Nov 2003	(x)	100.00	-	-	Cisf/Finantia/Mello
FINNISH MARKKA							
Merita Bank‡	1bn	Nov 1999	(m)	99.872R	-	-	Deutsche/Merita/UBS
NEWW ZEALAND DOLLARS							
UBS Australia	150	Nov 1998	8.00	101.00	7.444	-	Hambros Bank
Province of Alberta(c)	100	Oct 1998	8.00	101.25	7.306	-	Toronto Dominion Bank
Finnish Export Credit★	130	Oct 1999	7.30#	100.00	7.300	-	Saitama Finance Intl

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◆With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) 5% to 2/12/00, then 6⅛%. b) Callable on 4/11/03 at 49.635%. c) NZ$100m launched 7/10/96 was increased to NZ$200m. d) Pacific Palisades Funding. Callable from Nov 99. d1) 3-mth Libor +115bp. d2) Tranche B: £22.5m, 8.19% quarterly, 99.60R, +141(7%Nov01). e) Recommended re-offer. f) Amortises in 9 equal instalments from 21/4/01. Callable on coupon dates from 21/4/01 at par. g) 51% share maintenance clause. h) Denom: SFr50,000 + 50 wrts. Ex price: Y1,107. FX: 89.35Y/SFr. Refixing clause effective Nov 97 & 98, max 80%. i) Over interpolated yield. j) Callable on 30/10/06 & every 5 yrs at par. If not called coupon resets at 192bp over the then 5yr gilt. k) Callable on 15/11/00 at par. k1) 7.14% to 15/11/00, then 8.40%. l) Long 1st coupon. m) 3-mth Helibor +12½bp. n) 3-mth Libor +⅛%. o) Callable from Oct 01 at par. o1) 3-mth Libor +80bp to Oct 01, then +210bp. p) Callable & puttable on 29/10/01 at 99¾%. q) Callable on 18/11/97 at par. q1) 6% to 18/11/97, then 6½%. r) Underlying: Argentine FRBs due 31/3/05. Amortises from April 97 in 17 unequal semi-annual instalments. Average life: 5.44 yrs. s) Short 1st coupon. t) Fungible with £500m. Plus 87 days accrued. u) Short 1st & long last coupons. v) Callable on 14/11/06 at 68.10%. w) L500bn launched 2/10/96 was increased to L700bn. x) 3-mth Libor +15bp. y) Denom: SFr50,000 +50 wrts. Ex price: Y662. FX: 89.64Y/SFr. Callable on 24/10/98 at 101% and on 24/10/99 at 100½%. z) Callable & puttable on 8/11/01 at 99¼%. A) Redemption linked to German top 12 total return equity index. Puttable on 6/11/98 & 5/11/99. B) 3-mth Libor -20bp. C) L200bn launched was 3/10/96 increased to L300bn. D) Exercise of warrants relating to previous issue. E) 3-mth Libor -10bp. F) £150m launched 11/10/96 was increased to £200m. G) L1,000bn launched 25/9/96 was increased to L1,500bn. H) L200bn launched 7/10/96 was increased to L300bn. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Oct 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	[illegible]											
Belgium	(BFr)	[illegible]											
Denmark	(DKr)	[illegible]											
Finland	(FM)	[illegible]											
France	(FFr)	[illegible]											
Germany	(DM)	[illegible]											
Greece	(Dr)	[illegible]											
Ireland	(I£)	[illegible]											
Italy	(L)	[illegible]											
Luxembourg	(LFr)	[illegible]											
Netherlands	(Fl)	[illegible]											
Norway	(NKr)	[illegible]											
Portugal	(Es)	[illegible]											
Spain	(Pta)	[illegible]											
Sweden	(SKr)	[illegible]											
Switzerland	(SFr)	[illegible]											
UK	(£)	[illegible]											
Ecu		[illegible]											
SDR†		[illegible]											
Americas													
Argentina	(Peso)	[illegible]											
Brazil	(R$)	[illegible]											
Canada	(C$)	[illegible]											
Mexico	(New Peso)	[illegible]											
USA	($)	[illegible]											
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]											
Hong Kong	(HK$)	[illegible]											
India	(Rs)	[illegible]											
Israel	(Shk)	[illegible]											
Japan	(Y)	[illegible]											
Malaysia	(M$)	[illegible]											
New Zealand	(NZ$)	[illegible]											
Philippines	(Peso)	[illegible]											
Saudi Arabia	(SR)	[illegible]											
Singapore	(S$)	2.2512	+0.0083	497 - 526	2.2527	2.2412	-	-	-	-	-	-	-
South Africa	(R)	7.2457	+0.0342	396 - 517	7.2519	7.2017	-	-	-	-	-	-	-
South Korea	(Won)	1316.28	+4.72	574 - 681	1317.73	1309.81	-	-	-	-	-	-	-
Taiwan	(T$)	43.7539	+0.141	256 - 622	43.7916	43.5425	-	-	-	-	-	-	-
Thailand	(Bt)	40.5599	+0.1224	444 - 753	40.6010	40.3700	-	-	-	-	-	-	-

† Rates for Oct 17. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	[illegible]											
Belgium	(BFr)	[illegible]											
Denmark	(DKr)	[illegible]											
Finland	(FM)	[illegible]											
France	(FFr)	[illegible]											
Germany	(DM)	[illegible]											
Greece	(Dr)	[illegible]											
Ireland	(I£)	[illegible]											
Italy	(L)	[illegible]											
Luxembourg	(LFr)	[illegible]											
Netherlands	(Fl)	[illegible]											
Norway	(NKr)	[illegible]											
Portugal	(Es)	[illegible]											
Spain	(Pta)	[illegible]											
Sweden	(SKr)	[illegible]											
Switzerland	(SFr)	[illegible]											
UK	(£)	[illegible]											
Ecu		[illegible]											
SDR		[illegible]											
Americas													
Argentina	(Peso)	[illegible]											
Brazil	(R$)	[illegible]											
Canada	(C$)	[illegible]											
Mexico	(New Peso)	[illegible]											
USA	($)	-											
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]											
Hong Kong	(HK$)	[illegible]											
India	(Rs)	[illegible]											
Israel	(Shk)	[illegible]											
Japan	(Y)	[illegible]											
Malaysia	(M$)	[illegible]											
New Zealand	(NZ$)	[illegible]											
Philippines	(Peso)	[illegible]											
Saudi Arabia	(SR)	3.7503	-0.0002	495 - 510	3.7511	3.7494	3.7506	-0.1	3.751	-0.1	3.7525	-0.1	-
Singapore	(S$)	1.4149	+0.0011	144 - 154	1.4155	1.4136	1.4127	1.8	1.4082	1.9	1.3869	2.0	-
South Africa	(R)	4.5540	+0.0085	515 - 565	4.5570	4.5440	4.5947	-10.7	4.6697	-10.2	4.9845	-9.5	-
South Korea	(Won)	827.300	+0.6	200 - 400	828.300	826.800	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	+0.01	900 - 100	27.5200	27.4890	27.5001	0.0	27.5003	0.0	-	-	-
Thailand	(Bt)	25.4925	+0.004	900 - 950	25.4950	25.4820	25.5825	-4.2	25.75	-4.0	26.3875	-3.5	-

† SDR rate per $ for Oct 17. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 17: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

October 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]							
week ago	[illegible]							
France	[illegible]							
week ago	[illegible]							
Germany	[illegible]							
week ago	[illegible]							
Ireland	[illegible]							
week ago	[illegible]							
Italy	[illegible]							
week ago	[illegible]							
Netherlands	[illegible]							
week ago	[illegible]							
Switzerland	[illegible]							
week ago	[illegible]							
US	[illegible]							
week ago	[illegible]							
Japan	[illegible]							
week ago	[illegible]							
$ LIBOR FT London								
Interbank Fixing	[illegible]							
week ago	[illegible]							
US Dollar CDs	[illegible]							
week ago	[illegible]							
ECU Linked Ds	[illegible]							
week ago	[illegible]							
SDR Linked Ds	[illegible]							
week ago	[illegible]							

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 18	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]					
Danish Krone	[illegible]					
D-Mark	[illegible]					
Dutch Guilder	[illegible]					
French Franc	[illegible]					
Portuguese Esc.	[illegible]					
Spanish Peseta	[illegible]					
Sterling	[illegible]					
Swiss Franc	[illegible]					
Can. Dollar	[illegible]					
US Dollar	[illegible]					
Italian Lira	[illegible]					
Yen	[illegible]					
Asian $Sing	[illegible]					

Short term rates are call for the US Dollar and Yen, others: two days' notice.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.58	16.39	4.853	1.965	4831	5.444	20.54	488.6	408.0	20.87	4.003	1.977	4.242	3.145	354.0	2.524
Denmark	(DKr)	53.81	10	8.822	2.611	1.057	2599	2.929	11.05	262.9	219.5	11.23	2.154	1.064	2.282	1.692	190.5	1.358
France	(FFr)	61.00	11.34	10	2.960	1.198	2947	3.320	12.53	298.0	248.9	12.73	2.442	1.206	2.587	1.918	215.9	1.540
Germany	(DM)	20.61	3.830	3.378	1	0.405	995.5	1.122	4.232	100.7	84.07	4.301	0.825	0.407	0.874	0.648	72.95	0.520
Ireland	(I£)	50.90	9.459	8.344	2.470	1	2459	2.771	10.45	248.7	207.6	10.62	2.037	1.006	2.159	1.601	180.2	1.285
Italy	(L)	2.070	0.385	0.339	0.100	0.041	100.	0.113	0.425	10.11	8.445	0.432	0.083	0.041	0.088	0.065	7.328	0.052
Netherlands	(Fl)	18.37	3.414	3.012	0.891	0.361	887.4	1	3.773	89.76	74.95	3.834	0.735	0.363	0.779	0.578	65.03	0.464
Norway	(NKr)	48.69	9.049	7.983	2.363	0.957	2352	2.651	10	237.9	198.7	10.16	1.949	0.962	2.065	1.531	172.4	1.229
Portugal	(Es)	20.47	3.803	3.355	0.993	0.402	988.7	1.114	4.203	100.	83.50	4.272	0.819	0.405	0.868	0.644	72.45	0.517
Spain	(Pta)	24.51	4.555	4.018	1.189	0.482	1184	1.334	5.034	119.8	100.	5.116	0.981	0.484	1.040	0.771	86.77	0.619
Sweden	(SKr)	47.91	8.903	7.854	2.325	0.941	2314	2.608	9.839	234.1	195.5	10	1.918	0.947	2.032	1.507	169.6	1.209
Switzerland	(SFr)	24.98	4.643	4.096	1.212	0.491	1207	1.360	5.131	122.1	101.9	5.215	1	0.494	1.060	0.786	88.44	0.631
UK	(£)	50.59	9.402	8.294	2.455	0.994	2444	2.754	10.39	247.2	206.4	10.56	2.025	1	2.146	1.591	179.1	1.277
Canada	(C$)	23.57	4.381	3.865	1.144	0.463	1139	1.283	4.842	115.2	96.18	4.921	0.944	0.466	1	0.741	83.46	0.595
US	($)	31.80	5.909	5.213	1.543	0.625	1536	1.731	6.530	155.4	129.7	6.637	1.273	0.629	1.349	1	112.6	0.803
Japan	(Y)	28.25	5.250	4.631	1.371	0.555	1365	1.538	5.801	138.0	115.2	5.896	1.131	0.558	1.198	0.888	100.	0.713
Ecu		39.62	7.363	6.495	1.922	0.778	1914	2.157	8.136	193.6	161.6	8.269	1.586	0.783	1.681	1.246	140.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.6509	0.6506	+0.0002	0.6522	0.6497	23,761	73,152
Mar	0.6545	0.6546	+0.0002	0.6558	0.6542	810	2,587
Jun	-	0.6585	+0.0002	-	-	11	2,273

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.7925	0.7917	-0.0006	0.7942	0.7897	15,998	49,626
Mar	0.8004	0.7990	-0.0008	0.8018	0.7971	217	2,471
Jun	-	0.8067	-0.0006	0.8080	0.8055	2	603

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.8980	0.8957	-0.0023	0.8981	0.8947	11,407	71,613
Mar	0.9092	0.9072	-0.0024	0.9092	0.9065	189	2,115
Jun	0.9190	0.9188	-0.0025	0.9190	0.9188	2	215

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	1.5858	1.5882	+0.0030	1.5920	1.5834	7,977	54,647
Mar	1.5832	1.5864	+0.0026	1.5906	1.5830	83	201
Jun	-	1.5846	+0.0024	1.5880	1.5820	4	2

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	Dec	Jan	PUTS Nov	Dec	Jan
1.570	2.15	2.45	2.66	0.27	0.62	0.93
1.580	1.43	1.80	2.10	0.55	0.97	1.30
1.590	0.87	1.25	1.57	1.03	1.50	1.78
1.600	0.47	0.85	1.15	1.60	2.02	2.35
1.610	0.22	0.53	0.81	-	-	-

Previous day's vol., Calls 4,924 Puts 11,226. Prev. day's open int., Calls 140,123 Puts 128,753

■ Pound in New York

Oct 18	-- Close --	-- Prev. close --
£ spot	1.5900	1.5875
1 mth	1.5892	1.5868
3 mth	1.5881	1.5857
1 yr	1.5801	1.5798

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

Oct 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 4	5⅞ - 5⅝	5$\frac{15}{16}$ - 5$\frac{27}{32}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6⅛ - 6	6⅜ - 6¼
Sterling CDs	-	-	5$\frac{27}{32}$ - 5$\frac{25}{32}$	5$\frac{15}{16}$ - 5⅞	6$\frac{1}{16}$ - 6	6$\frac{9}{32}$ - 6$\frac{7}{32}$
Treasury Bills	-	-	5$\frac{23}{32}$ - 5⅝	5$\frac{11}{16}$ - 5⅝	-	-
Bank Bills	-	-	5$\frac{25}{32}$ - 5$\frac{23}{32}$	5$\frac{27}{32}$ - 5$\frac{25}{32}$	5$\frac{31}{32}$ - 5$\frac{29}{32}$	-
Local authority deps.	5¾ - 5⅝	5¾ - 5⅝	5$\frac{27}{32}$ - 5$\frac{25}{32}$	5$\frac{15}{16}$ - 5$\frac{13}{16}$	6$\frac{1}{32}$ - 5$\frac{29}{32}$	6¼ - 6⅛
Discount Market deps	5¾ - 4¾	5¾ - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Oct 18, 5.5518pc. ECGD fixed rate Stg. Export Finance. Make up day Sep 30, 1996. Agreed rate for period Oct 26, 1996 to Nov 25, 1996, Schemes II & III 7.09pc. Reference rate for period Aug 31, 1996 to Sep 30, 1996, Schemes IV & V 5.849pc. Finance House Base Rate 6pc from Oct 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Oct 18	Oct 11		Oct 18	Oct 11
Bills on offer	£200m	£200m	Top accepted rate	5.5753%	5.5151%
Total of applications	£939m	£1071m	Ave. rate of discount	5.5518%	5.5136%
Total allocated	£200m	£200m	Average yield	5.6297%	5.5904%
Min. accepted bid	£98.610	£98.625	Offer at next tender	£200m	£200m
Allotment at min. level	27%	94%	Min. accept. bid 93 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday Oct 16 1996	Increase or decrease for week
	£	£
Liabilities		
Capital	14,553,000	
Public deposits	1,225,867,295	-87,234,536
Bankers deposits	1,895,847,439	+45,391,971
Reserve and other accounts	3,292,638,940	-88,013,274
	6,428,906,674	-129,855,839
Assets		
Government securities	1,218,269,405	+17,300,000
Advance and other accounts	3,114,044,895	-715,397,308
Premise, equipment and other secs.	2,091,817,603	+568,330,180
Notes	4,642,590	-48,272
Coin	132,181	-40,439
	6,428,906,674	-129,855,839
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,705,357,410	-59,951,728
Notes in Banking Department	4,642,590	-48,272
	20,701,000,000	-60,000,000
Assets		
Other Government securities	11,120,852,837	-59,396,986
Other Securities	9,589,147,163	-603,014
	20,710,000,000	-60,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Irish Bank (GB)	5.75	Duncan Lawrie	5.75	●Rea Brothers	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
●Henry Ansbacher	5.75	Financial & Gen Bank	7.00	●Singer & Friedlander	5.75
Bank of Baroda	5.75	●Robert Fleming & Co	5.75	●Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	●Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	●Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	●Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75	● Members of London Investment Banking Association	
Clydesdale Bank	5.75	●Leopold Joseph & Sons	5.75		
The Co-operative Bank	5.75	Lloyds Bank	5.75	* In administration	
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

FT GOLD MINES INDEX

	Oct 18	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (31)	1860.79	-2.8	49.41	100.00	1.64	-	2520.73	1722.93
■ Regional Indices								
Africa (13)	2426.32	-3.0	13.00	26.31	3.27	34.38	3553.86	2272.74
Australasia (6)	2216.31	-6.4	5.91	11.97	2.52	21.54	2927.34	2005.75
North America (12)	1653.38	-1.8	30.50	61.72	0.78	62.70	2186.39	1488.94

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	34.2	85½	65	†Airtech	75		-	-	-	-
§135	F.P.	47.1	162½	152½	Charles Taylor	161½		L4.2	0.3	3.3	51.3
-	F.P.	27.9	90½	77½	Cruden Bay	80½		-	-	-	-
150	F.P.	29.5	169½	160½	Deltron Electrn	160½		W2.75	2.9	2.1	15.2
§146	F.P.	37.8	248	148	†Elec Retail Sys	179½	+3	-	-	-	-
§	F.P.	11.6	316	310	†Eurasia Mining	312½		-	-	-	-
§80	F.P.	24.9	92½	90½	†Fitness First	90½		bW-	-	-	28.3
*	F.P.	203.6	£42½	£25$\frac{13}{16}$	GT Chile Growth	£25$\frac{13}{16}$	-$\frac{1}{16}$	-	-	-	-
100	F.P.	106.5	113½	106½	†Geo Inter Med	106½		-	-	-	-
§12.5	F.P.	1.83	15¾	13¼	†Grosvenor Land	15¾		-	-	-	-
§	F.P.	-	127	111½	Hartstone 8%	120½		-	-	-	-
*	F.P.	1,974	429	379	Imperial Tobacco	379	-3	W20.0	2.5	6.6	7.6
§	F.P.	55.8	177	167½	Interoute Telecm	167½		-	-	-	-
§140	F.P.	33.3	160½	145½	Levendon	156½	-1	R3.4	3.8	2.7	12.2
*	F.P.	42.9	130½	128	Lomond Undrwrtng	130	+1½	-	-	-	-
§10	F.P.	4.32	12¼	11¼	†Mears Group	12	-¼	K0.2	-	2.1	-
-	F.P.	1,058	£16$\frac{11}{16}$	£14⅛	Millennium Chem	£14$\frac{7}{32}$	-$\frac{1}{32}$	Q60c	-	2.7	-
§154	F.P.	19.6	211½	187½	Oriental Rest	205½		-	-	-	23.2
66	F.P.	13.1	106	83	†Personal No Co	84½		-	-	-	-
§65	F.P.	11.9	70½	67½	†Polydoc	69½		-	-	-	-
-	F.P.	6.70	139½	132½	Shalibane	139½		R4.0	2.1	3.6	11.4
170	F.P.	1,030	177	169½	Thistle Hotels	171	+½	R3.7	2.5	2.7	18.4
§250	F.P.	195.0	302	282½	Ultra Elctn	300	+½	RW6.5	2.3	2.7	20.3
§	F.P.	109.9	62	52	†Victory Corp	58	+3	-	-	-	-
§	F.P.	9.54	7¾	6¼	†Weeks Group	7¼		0.09	4.8	1.6	18.7

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.39	94.39	+0.01	94.41	94.39	90,026	478,912
Mar	94.32	94.32	-	94.35	94.31	108,179	377,831
Jun	94.19	94.18	-	94.21	94.17	81,496	279,245

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.96	94.97	+0.02	94.97	94.95	300	4,070
Mar	94.87	94.85	-	94.88	94.85	19	1,794
Jun	-	94.69	+0.01	94.71	-	3	1,307

All Open interest figs. are for previous day

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	Low	Stock	Closing price p	+or-
100	Nil	7/11	8½pm	8pm	Celsis Intl	8pm	-½
240	Nil	4/11	125pm	118pm	Prism Rail	125pm	

pm premium.

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
Conversion 10pc 1996		100⅛	-.1	3,409	My15 Nv15	3.5	1240
Treas 13¼pc 1997‡‡		101⅝	-.2	1,290	Jy22 Ja22	11.7	1302
Exch 10½pc 1997		101½	-.1	3,700	Au21 Fe21	12.8	1253
Treas Cnv 7pc 1997‡‡		100⅝	-.1	1,986	Fe6 Au6	26.7	4491
Treas 8¾pc 1997‡‡		102⅞	-.2	5,550	Mr1 Se1	21.8	1341
Exch 15pc 1997		108⅞xd	-.2	830	Oc27 Oc27	17.10	1269
Exch 9¾pc 1998		104⅛	-.2	3,550	Jy19 Ja19	10.7	1273
Treas 7¼pc 1998‡‡		101¼	-.2	8,150	Se30 Mr30	18.9	1788
Treas 6¾pc 1995-98‡‡		100	—	1,200	Nv1 My1	22.4	1331
Treas 15½pc '98‡‡		116⅜	-.5	935	Mr30 Se30	18.9	1306
Exch 12pc 1998		110⅜	-.4	3,909	My20 Nv20	9.5	1259
Treas 9½pc 1999‡‡		105⅞	-.4	1,900	Jy15 Ja15	4.7	1347
Treas Flg Rate 1999		99⅞	—	5,700	9MrJeSeDe	2.9	4945
Exch 12¼pc 1999		112⅞	-.4	3,050	Se26 Mr26	18.9	1284
Treas 10½pc 1999		108⅛	-.5	1,252	Nv19 My19	9.5	1288
Treas 6pc 1999‡‡		98⅝	-.6	8,850	Fe10 Au10	1.8	3835
Conversion 10¼pc 1999		109⅛	-.6	1,798	My22 Nv22	13.5	1242
Conv 9pc 2000‡‡		106⅜	-.6	5,358	Se3 Mr3	22.8	1244
Treas 13pc 2000		119½	-.7	3,172	Ja14 Jy14	4.7	1298
Treas 14pc 1998-1		111⅜	-.4	970	Nv22 My22	13.5	1306
Treas 8pc 2000‡‡		103⅜	-.6	9,800	Ja7 De7	29.5	4948
Treas Flg Rate 2001		99⅞	—	3,000	8DcJaApJy	7.10	-
Treas 10pc 2001		110⅝	-.7	4,406	Au26 Fe26	15.8	1260
Five to Fifteen Years		[illegible]					
Treas 8½pc 2005‡‡		108⅛	-.7	10,373	Ja7 De7	29.5	4946
Treas 7½pc 2006‡‡		99⅞	-.7	11,700	Ja7 De7	29.5	1148
Treas 7¾pc 2006‡‡		100⅞	-.7	3,900	Mr8 Se8	2.9	2300
Treas 8pc 2002-6‡‡		102⅝	-.4	2,050	Ap5 Oc5	26.9	1334
Treas 11¾pc 2003-7		121⅜	-.7	3,150	Jy22 Ja22	11.7	1293
Treas 8½pc 2007‡‡		105⅞	-.8	7,397	Ja16 Jy16	5.7	1339
Treas 9pc 2008‡‡		110⅛	-.8	5,621	Ap13 Oc13	3.10	1343
Treas 8pc 2009		102⅜	-1.0	3,450	Mr25 Se25	16.9	1336
Treas 6 1/4pc 2010‡‡		88⅝	-.9	4,750	Mr25 Nv25	18.5	4632
Conv 9pc Ln 2011‡‡		110	-.9	5,273	Jy12 Jy12	3.7	1245
Over Fifteen Years							
Treas 9pc 2012‡‡		110⅛	-1.0	5,360	Fe6 Au6	26.7	1701
Treas 5½pc 2008-12‡‡		80⅝	-.3	1,000	Mr10 Se10	2.9	1330
Treas 8pc 2013‡‡		100⅞	-1.0	6,100	Mr27 Se27	18.9	2229
Treas 7¾pc 2012-15‡‡		99⅛	-.3	800	Jy26 Ja26	17.7	1332
Treas 8pc 2015‡‡		100⅞	-1.1	11,000	Ja7 De7	29.5	4992
Treas 8¾pc 2017‡‡		107⅞	-1.1	7,550	Fe25 Au25	15.8	1982
Exch 12pc 2013-17		137⅛	-1.0	1,000	Ja12 De12	3.6	1260
Treas 8pc 2021‡‡		100⅞	-1.2	9,000	Ja7 De7	29.5	-
Index-Linked	(b)						
4⅝pc '98‡‡	(135.6)	114xd	-.1	800	Ap27 Oc27	17.10	1753
2½pc '01	(78.3)	185⅛	0.1	2,150	Mr24 Se24	18.9	1316
2½pc '03	(78.8)	180⅝	0.1	2,150	My20 Nv20	8.5	1317
4⅜pc '04‡‡	(135.6)	118⅞xd	—	1,150	Ap21 Oc21	10.10	1255
2pc '06	(69.5)	189¾	-.2	2,250	Ja19 Jy19	10.7	1314
2½pc '09	(78.8)	170⅞	-.3	2,400	My20 Nv20	9.5	1318
2½pc '11	(74.6)	175⅞	-.5	2,850	Fe23 Au23	14.8	1319
2½pc '13	(89.2)	144⅝	-.7	3,400	Fe16 Au16	7.8	1320
2½pc '16	(81.6)	153⅝	-.7	3,400	Ja26 Jy26	17.7	1321
2½pc '20	(83.0)	147⅞	-.8	3,350	Ap16 Oc16	7.10	1322
2½pc '24‡‡	(97.7)	122⅛	-.9	3,250	Ja17 Jy17	8.7	1323
4⅛pc '30‡‡	(135.1)	120¾	-.9	1,300	Ja16 Jy22	11.7	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for February 1996: 150.9 and for September 1996: 153.8.

Other Fixed Interest

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009		118⅛	-.8	100	Mr24 Se24	3.93	-
B'ham 11½pc 2012		126½xd	-.8	45	My15 Nv15	15.10	1837
Ireland Cap 8½pc '10		105¾	—	303	Ap1 Oc1	-	1485
[illegible]							

‡‡ Tap stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	— 1996 — High	Low	— Since comp. — High	Low
FTSE 100	[illegible]								
FTSE 250	[illegible]								
FTSE 250 ex IT	[illegible]								
FTSE 350	[illegible]								
FTSE SmallCap	[illegible]								
FTSE SmallCap ex IT	[illegible]								
FTSE All-Share	[illegible]								

	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	— 1996 — High	Low	— Since comp. — High	Low
FTSE Fledgling	[illegible]								
FTSE Eurotrack 100	[illegible]								
FTSE Eurotrack 200	[illegible]								
FT 30	[illegible]								
FT Govt Securities	[illegible]								
FT Fixed Interest	[illegible]								
FT Gold Mines	[illegible]								

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

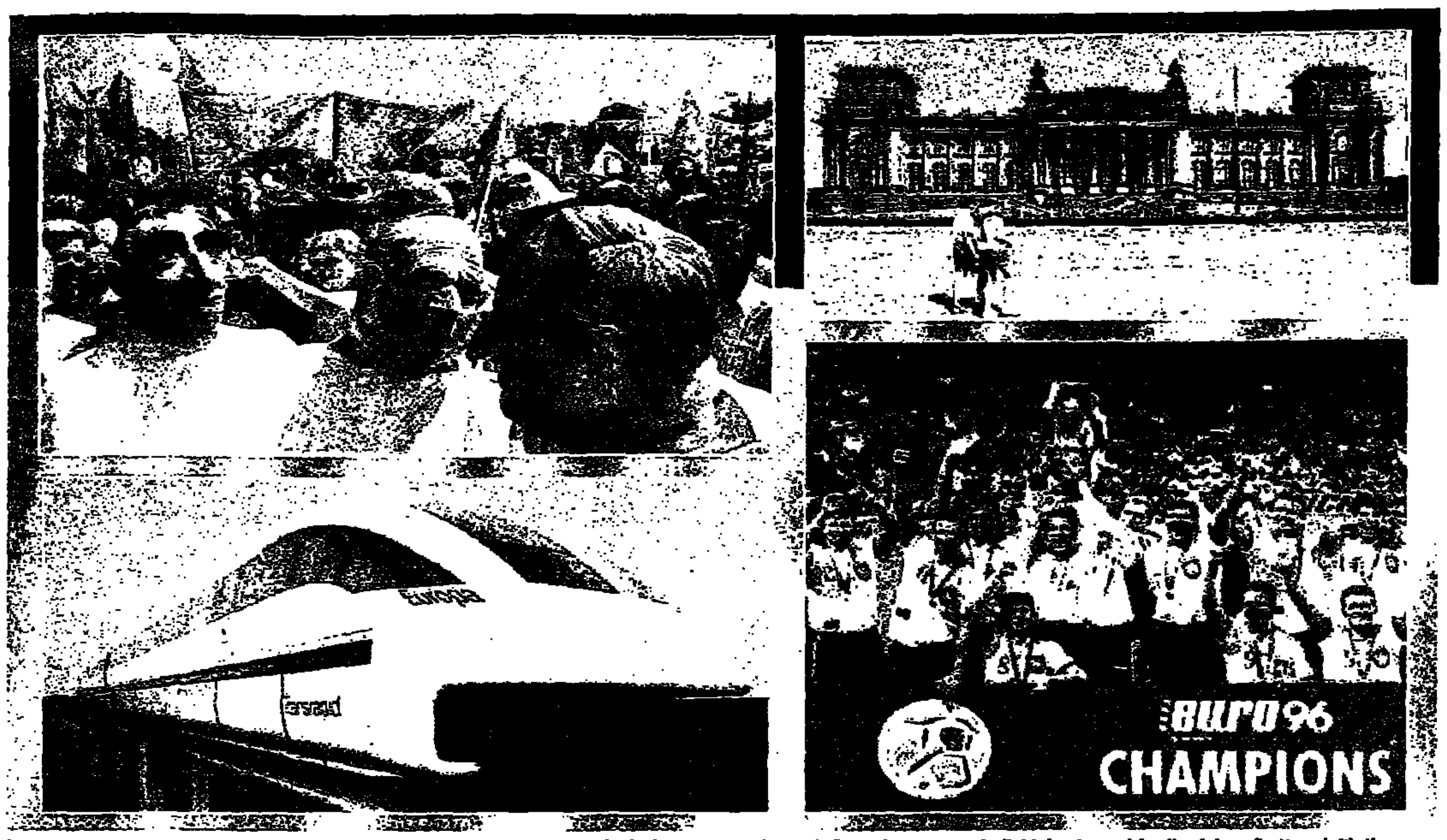
INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

Germany

Despite difficulties on the domestic front, the country's standing in international affairs has rarely been higher, writes **Peter Norman**

Resistance to change clouds Kohl vision



Demonstrators against government cuts in public spending in June (top left); the Transrapid, which floats in a magnetic field, is planned for the future (bottom left); the Reichstag, which is being refurbished for the German parliament in Berlin (top right); Germany celebrates victory in the European Nations soccer championship

Germany is going through one of its most testing periods since the second world war.

High unemployment, affecting 3.85m people, or just over 10 per cent of the working population, bears witness to the difficulty of adapting to globalisation and coping with the aftermath of reunification six years ago. The country's tradition of settling disputes by consensus is under strain.

It is doubtful whether Helmut Kohl, who in 10 days time will become the federal republic's longest serving chancellor, will achieve his goal of halving the nation's jobless total to around 2m by the end of the century. Nor is it certain that Germany will be fit enough to meet in full the Maastricht criteria for European economic and monetary union in 1997, the year that will determine whether and with which countries Emu starts on January 1, 1999.

Despite domestic difficulties, however, Germany's influence abroad has rarely been higher. With France locked in step, Mr Kohl is pushing ahead with efforts to forge a more united Europe. Under Mr Kohl's leadership, Bonn is showing greater confidence in foreign policy, notably in its role as advocate in the west for Russia, Ukraine and the former communist countries of eastern and central Europe.

Germany's higher profile abroad and problems at home are two sides of the same coin. Reunification and the collapse of communism have allowed the country to play an international role more in keeping with its position as the European Union's largest economy and most populous nation. With a time lag, the same forces have heaped huge burdens on Germany's public finances and exposed its industry to increased international competition, emphasising the necessity for change.

Bonn was slow to grasp the need for change in spite of economic stagnation and sharply rising unemployment in the second half of 1995. Although the government first outlined a 50-point programme of mainly supply side reforms to make the economy more competitive in January, it was not until April, after important state elections were over, that its "programme for more growth and employment" was finalised.

The programme aims to cut the share of public spending in the economy from 50 per cent to 46 per cent by the end of the century in order to create greater scope for private enterprise. It seeks to trim Germany's luxuriant welfare state so as to cut non-wage labour costs to 40 per cent of gross wages by 2000 and thereby reduce disincentives to employment. Plans for deregulation, privatisation and tax reform would all give a supply side boost to the economy and build on its underlying strengths. These are considerable, as shown by the return of export-led growth in recent months, despite high labour costs and fears that Germany may have been too slow to embrace advanced sectors such as biotechnology and information technology.

But implementing the programme is proving difficult. Much legislation gets blocked in parliament, because the Bundestag, the lower house, and the Bundesrat, the second chamber representing the federal states, are controlled individually by different political groupings. Mr Kohl's coalition of Christian parties and the liberal Free Democrats has a slender majority in the Bundestag while Social Democrat-controlled state governments have a majority in the Bundesrat.

The government has managed to secure approval for parts of the programme against entrenched SPD-led opposition. A psychologically important piece of deregulation became law in summer when parliament modified 30-year-old legislation and approved a modest relaxation of Germany's restrictive shopping hours. Its biggest triumph came in mid-September when all 341 coalition MPs voted to cut sick pay, raise the retirement age for women and reduce job security for workers in small companies, so reversing Bundesrat vetoes.

But this success quickly gave way to a politically costly dispute between employers and trade unions in the metal industry when some companies, led by the Daimler-Benz transport equipment group, sought to override existing labour contracts and implement without delay the new law cutting sick pay to 80 per cent of income from the previous 100 per cent level.

First round in the sick pay dispute has gone to the unions, after strikes centred on Daimler-Benz's Bremen works forced the employers to back down earlier this month. The episode illustrated the difficulty of implementing change in Germany against determined union resistance.

The employers' action came as a shock to Mr Kohl. His vision of change includes a role for the unions alongside employers and the government. Under his leadership, Germany is trying to adapt to globalisation while holding on as far as possible to the institutions – such as the "pay as you go" state pension system and industry-wide collective bargaining – that served western Germany well after the second world war.

This means that the government's programme, with its goal of lopping DM70bn off public spending next year alone, appears bold. But the political drive behind it is far from radical.

This paradox is inevitable. Mr Kohl has remained as chancellor for more than 14 years because of the political appeal of his "social market" philosophy and a generous welfare state. He also wants his government to win the next German general election in autumn 1998.

His life is being made difficult by the far-reaching structural changes produced by the globalised world economy. These include the weakening of trade unions and employers' groups.

The takeover of eastern Germany six years ago kept globalisation at bay for a while. The boom fostered by the economic, monetary and social union of eastern and western Germany provided a temporary shield for German companies from the growing competitive pressures experienced elsewhere.

Now, however, more and more companies are turning away from corporatism and setting their own pay and conditions or simply voting with their wallets and investing in lower cost countries abroad. The motor industry is a case in point, with Volkswagen established in the Czech Republic through its Skoda subsidiary, BMW ploughing investment into its Rover subsidiary in the UK, and Opel building a plant in Poland.

In eastern Germany, where one in four of the labour force has no proper job, local union officials have colluded with companies in adopting more flexible working practices simply to survive. The erosion of area-wide collective bargaining is a development viewed with concern by Chancellor Kohl, who went out of his way to praise the system last month in parliament.

But the combination of global competitive pressures and the uneven progress of reform mean Mr Kohl may have to face more unpleasant policy choices in the future.

It is already clear that non-wage labour costs will rise instead of fall next year. Theo Waigel, the finance minister, has admitted that the federal government's privatisation proceeds this year will fall far short of the DM9bn planned in the 1996 budget. Federal revenue forecasts for 1997 are in disarray because government and opposition were unable last week to reach a consensus on tax changes to take effect at the beginning of next year. In consequence, further welfare cuts and a restructuring of the pension system are in prospect, as is more trench warfare in parliament until the next election.

Last year's FT survey of Germany concluded that the country was capable of change but the big question was "whether change will be quick or extensive enough to maintain the country's position in an increasingly tough world".

Twelve gruelling months later, the question is the same and the answer just as uncertain.

IN THIS SURVEY

The economy; Banking Page 2
Interview with President Roman Herzogt Page 3
The Mittelstand; Venture capital; Profile, Jürgen Schrempp Page 4
Industrial relations; Profile, Klaus Zwickel Page 5
Telecommunications; Profile, Werner Stumpfe Page 6
Motor industry; Wage round; Construction Page 7
Biotechnology; Energy Page 8
The media; Corporate governance Page 11
Foreign policy; Eastern Germany Page 12
Politics; Profile, Guido Westerwelle Page 13
Bundeswehr; Wagner festival; Profile, Berti Vogts Page 14

Production editor: Roy Terry

2 GERMANY

■ The economy: by Peter Norman

Gearing up for Emu in 1999

The uncertain state of the economy has increased pressure on finance minister Theo Waigel

Doing better but not yet well enough sums up the state of Germany's economy as the Bonn government gears up to qualify for economic and monetary union on January 1, 1999 and to meet a self imposed challenge of halving unemployment to around 2m by the end of the century.

Germany has been experiencing a recovery in the business cycle after gross domestic product stagnated in the second half of last year and contracted in the first quarter of 1996.

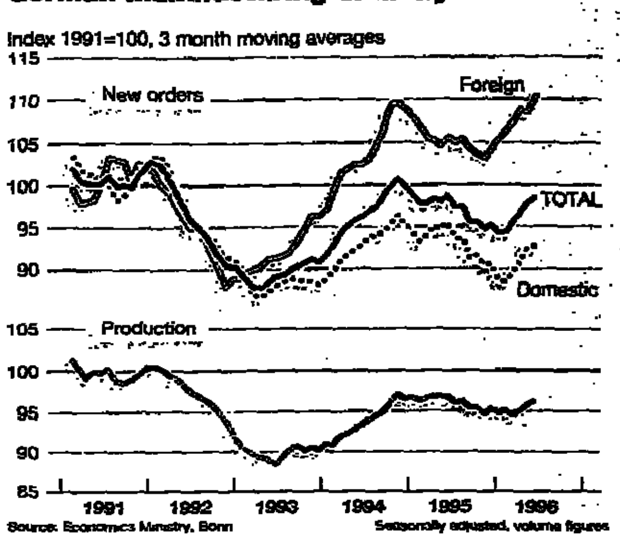
But the welcome news of a 1.5 per cent seasonally-adjusted rise in second-quarter GDP, and the continuing growth of industrial production in July and August, has so far had no discernible impact on the labour market. Unemployment affects 3.85m, or just over 10 per cent of the working population, while in eastern Germany the official jobless rate is around 15 per cent and one in four of the workforce has no proper employment. Although the Bonn economics ministry has been quick to proclaim an end to Germany's "growth pause", the Bundesbank in Frankfurt has been more cautious, pointing to weakness in the construction sector, sluggish business investment, and unresolved structural problems.

The uncertain state of the economy has increased the pressure on Theo Waigel, Germany's finance minister and leader of the Bavarian Christian Social Union, the sister party of Chancellor Helmut Kohl's CDU. A forceful personality, Mr Waigel is now the second longest serving finance minister in the history of the federal republic.

He carries the main responsibility for ensuring that Germany meets the Maastricht Treaty criteria for Emu next year and brings the government deficit below the limit of 3 per cent of GDP.

German manufacturing industry

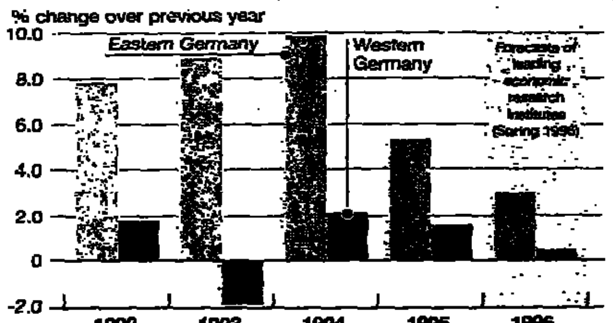
Index 1991=100, 3 month moving averages



Source: Economics Ministry, Bonn

Real GDP growth

% change over previous year



Source: Economics Ministry, Bonn

His task is not to be underestimated. Last year's deficit was an unexpectedly high 3.5 per cent of GDP, while for this year the Bundesbank has warned that it could be as high as 4 per cent. To meet the Maastricht deficit criterion, Mr Waigel has put forward a draft federal budget that envisages a 2.5 per cent drop in spending to DM440bn next year. But he will also have to ensure that Germany's federal states, or Länder, its local authorities and the statutory social security funds, which support the unemployed, the sick and the old, join in the austerity drive.

Mr Waigel is pursuing what he terms a symmetrical finance policy. The medium-term objective is to bring government involvement in the economy by 2000 back to the level obtained before unification in 1990. This means cutting public spending to 46 per cent of GDP by the end of the century from around 50 per cent, with the twin aims of reducing the deficit and cutting taxes. According to his plans, Germany's deficit will fall to 2.5 per cent of GDP next year and so be well within the Maastricht norm. However, it is uncertain whether the country will be able to hold its overall government debt below the 60 per cent of GDP specified in the treaty.

Mr Waigel's policies suffered a serious setback on the tax front last week. He was unable to reach agreement with the opposition Social Democrat party on important elements of a 1997 tax bill with the result that it is unclear whether a long-planned reform of business taxation will take place on schedule next January.

Facing an inevitable defeat at the hands of the SPD in the Bundesrat, the second chamber of parliament that represents the states, Mr Waigel had to abandon plans to postpone an increase in childrens' allowances for a year.

In return, he abandoned negotiations with the SPD to restructure wealth tax and has instead allowed this to fall into abeyance in line with a constitutional court ruling. These moves will cost the federal government DM3.5bn and the federal states DM11.3bn.

Looking ahead, the government plans a vote-catching reform of the income tax system for introduction in January 1999. The aim is to make the system simpler and fairer by lowering the top tax rate from 53 per cent to about 35 per cent and cutting the initial rate of income tax to below 20 per cent from 25.9 per cent. This would cost between DM80bn and DM90bn, which would be partly offset by abolishing tax privileges and exemptions to leave a net tax reduction of between DM20bn and DM30bn.

Again, a difficult progress through parliament is in prospect. Fuller details of the proposed measures will be announced towards the end of the year.

But the SPD has already made clear that it will oppose any moves to broaden the tax base by taxing overtime, unemployment pay and pensions.

Tax reform is a critical part of the government's programme to make the economy more flexible and capable of faster growth. Other aspects, including reduced sick pay and an easing of job protection in small companies, cleared their last legislative hurdle last month.

However, Germany still has much to do. It will be many years before economic growth in eastern Germany is self-sustaining, and still more before productivity and living standards have caught up with the west. Germany's energy sector has still to be deregulated. State subsidies to industry are excessive. Privatisation plans are lagging behind schedule. Non-wage labour costs, already among the highest in the world, are set to rise further next year in the wake of higher social security contributions.

Weak inward investment shows how Germany has slipped down the world rankings as a business location in the age of globalisation.

But the past year has also highlighted some of the nation's strengths. Exports have picked up since the beginning of the year, aided by growth in other industrialised countries, a softening of the D-Mark against leading competitor currencies, and moderate wage increases of below 2 per cent.

Inflation is low at 1.4 per cent. Monetary policy offers no barriers to growth: in August, the Bundesbank cut the securities repurchase (repo) rate, which determines short-term money market rates, from 3.3 per cent to a new low of 3 per cent.

Forecasts of economic growth this year have been creeping upwards. Shortly after the Bonn government upgraded its 1996 forecast to 1 per cent from 0.75 per cent last month, the International Monetary Fund predicted growth of 1.3 per cent. Expectations for 1997 centre on growth of about 2.5 per cent.

Such growth rates will not be strong enough to have a significant impact on unemployment. But every little bit helps when it comes to meeting the Maastricht criteria. The finance ministry rule of thumb is that every 1 per cent extra of real growth knocks a half percentage point off the government deficit.

While officials from Chancellor Kohl down will agree that halving employment is an "ambitious target", all insist that Germany is on course for Emu in 1999.

Theo Waigel: pursuing what he terms a symmetrical finance policy

Germany: the IMF's latest forecast

	1995	1996	1997
Growth and inflation		annual % change	
Real GDP	1.9	1.3	2.4
Consumer prices*	1.8	1.6	1.7
GDP deflator	2.2	1.4	1.6
Convergence and external performance		% GDP	
General government fiscal balance*	-3.5	-4.0	-3.0
Gross government debt*	58.1	60.8	61.9
Central government fiscal balance	-1.5	-2.0	-1.7
Current account payments balance	-0.9	-0.8	-0.7
Employment and unemployment		%	
Growth in employment	-0.3	-1.3	0.2
Unemployment rate	9.4	10.3	10.0
Short-term interest rate		%	
3-month interbank deposits	4.5	3.3	3.9

* Maastricht criteria for Emu. Source: IMF World Economic Outlook

■ Banking • by Andrew Fisher

Reorganisation in the wind

Allianz group is likely to play a key role in any restructuring of the sector

A shuffling of the cards has begun among German banks, but the game has yet to begin. As yet, no one knows when it will start or how long it will last. The players are warily sizing up each other.

Ever since Deutsche Bank stunned the financial world with the news that it held just over 5 per cent of the smaller Bayerische Vereinsbank, speculation about who might link up with whom has been rife.

This bolt from the blue came in the summer, but had been preceded by internal manoeuvrings among Swiss banks which had already raised the antennae of those looking for change in Germany.

With big banks striving to cut high costs and competing hard for customers, restructuring looks inevitable. The big Frankfurt and Munich-based banks are reorganising vigorously to improve service and automate more transactions.

The approach of European monetary union (Emu), due in 1999, has also concentrated bankers' minds. A single currency (Euro) will change the banking environment markedly, bringing greater opportunities for banks big enough to take advantage of pan-European markets.

Hilmar Kopper, Deutsche Bank's chairman, describes the introduction of the euro as "the greatest challenge facing the banking community". It would "produce one large, liquid European financial market which will provide companies with cheap financing and investors with attractive investment opportunities".

But while Emu will change banks' operating environment, they are already striving to squeeze more profit out of their businesses. Shareholder value is constantly on the lips of German bankers, keen to lift their returns on equity.

Mergers would be one way of doing this, though exploiting synergies would require a more radical approach to restructuring and job cuts than German banks have yet shown.

It is hard for individual banks to gain market share, since around 75 per cent of the retail and corporate market is held by the myriad savings, co-operative and other regional banks. The top five commercial banks only have around 12 per cent.

It is hardly surprising, therefore, that Deutsche Bank's move set off a flurry of speculation. Mr Kopper admitted that the Vereinsbank stake was taken to give it a seat at the negotiating table, should any other banks think about moving in.

Most analysts certainly believe Deutsche Bank's stake in Vereinsbank has opened up the prospect of significant ownership changes among German banks.

The stock market agrees. Ever since Germany's biggest bank announced its holding in Vereinsbank (fourth biggest in profit terms), previously lethargic bank shares have shot ahead and rumours have been rife.

A key role in any restructuring will be played by Allianz, the insurance group, which owns stakes of just over 20 per cent in Dresdner Bank (number two in Germany) and Bayerische Hypotheken-und Wechsel-Bank (number five). It also has smaller holdings in BHF-Bank and IKB Industrie Kreditbank. BHF, a medium-sized bank which concentrates on merchant banking business, is also regarded as a candidate for takeover, possibly from a big Swiss bank.

Henning Schulte-Noelle, Allianz's chairman, believes that "the German banking landscape will undergo considerable changes". He singles out Allianz's stakes in Dresdner and Hypo-Bank as having a "certain strategic interest" through co-operation deals on insurance sales. But these holdings have been the subject of speculation for a different, though equally strategic, reason.

A merger between Frankfurt-based Dresdner and Munich-based Hypo-Bank would give the former a bigger share of the prosperous Bavarian market and a stronger position in the low-margin, but steadily profitable, mortgage business. The same would apply to Deutsche Bank and Vereinsbank.

Jürgen Sarrazin, Dresdner's chairman, denies that talks are taking place with Hypo-Bank, and says Allianz has not put on any pressure. Yet such a combination is regarded as among the most likely in any restructuring wave.

Some analysts believe Dresdner wants to work closely with Allianz in setting up a deal rather than playing a passive role. Since Allianz also wants to improve its return on equity, a Dresdner-Hypo-Bank link would have the benefit of enhancing the low earnings performance of its bank holdings.

Also widely rumoured has been an amalgamation between Commerzbank – the third biggest of the Frankfurt banks – and Vereinsbank.

This has been dismissed by both sides, but reflects the fact they are of similar size, with shares widely spread in the market, and have had problems breaking into the costly international businesses of investment banking and asset management.

Both Deutsche Bank and Dresdner Bank, through their purchases of Morgan Grenfell and Kleinwort Benson in the UK, have made clear their ambition of becoming global operators in the highly profitable, though volatile, investment banking world.

Commerzbank, however, failed to buy Smith New Court, the big UK broking firm that went to Merrill Lynch of the US last year. Vereinsbank attempted to spread its wings in asset management by buying Oppenheimer, the US brokerage, investment bank and fund manager, but fell at regulatory hurdles.

A merger could give both added strength, with the attraction for Vereinsbank of joining with a roughly equal partner, instead of being absorbed by the powerful Deutsche Bank. Alternatively, a big foreign bank could be interested in Vereinsbank or Commerzbank.

Since French banks have their own problems, and UK and US banks are not thought to be interested in the over-banked German market, that leaves only the Dutch and Swiss institutions.

Yet the prospect of Union Bank of Switzerland, Credit Suisse or ABN Amro casting covetous eyes on the big German market is not one that bankers in Germany relish.

Nor is it certain that any of these banks is contemplating such a move, which would be expensive. Vereinsbank and Commerzbank each have a market capitalisation of more than DM13bn, about one-third of Deutsche Bank's.

What is clear is that predatory moves would not work, and not just because the bidder would have to pay a high premium to win over reluctant shareholders. Hostile bids are virtually unknown in consensus-minded Germany.

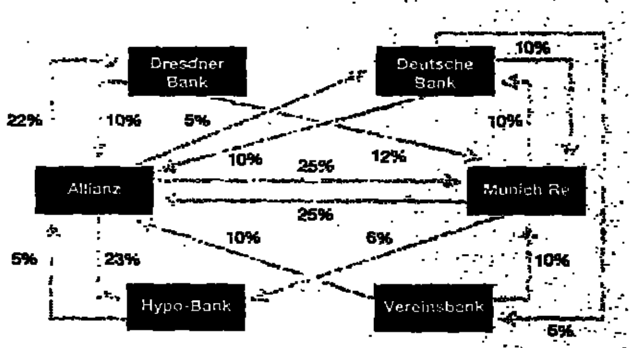
Yet even an agreed takeover could rekindle the debate about Macht der Banken (power of the banks). At a time when banks are making big profits, it would be hard to claim that mergers are vital to achieve much-needed savings.

A softly-softly approach, though, would run the danger of making cost savings too little and too late. Bids could also run up against competition law objections. But these could probably be overcome, since big banks' market share is small.

"Even if the two largest German banks were to merge, their combined market share would not match that of the biggest banks in other major European countries," notes Mr Kopper.

Hilmar Kopper: introduction of the Euro will be a great challenge

Who owns what



Source: Hauck&Aufhäuser Research

Henning Schulte-Noelle: forecasts considerable changes

Plain-speaking man with a mission

In a punishing schedule of speeches and public appearances, Roman Herzog is making his fellow citizens face up to the challenge of globalisation, the unfinished business of unification and their future in an increasingly integrated Europe. Peter Norman and Frederick Stüdemann interviewed the German president in Schloss Bellevue, his Berlin residence

'Germany's problems can be counted on the fingers of one hand . . . it will take time for eastern and western Germany to come together . . . Europe must be extended as far eastwards as is possible'

Roman Herzog, Germany's seventh president, is a man with a mission. In a society of rooted habits, where red tape abounds and where people tend to look to the state to solve their problems, he is an agent of change.

Since taking office in July 1994, he has used his position as head of state with no executive powers to wield great and growing influence. Keeping up a punishing schedule of speeches and public appearances, he is making his fellow citizens face up to the challenge of globalisation, the unfinished business of unification and their future in an increasingly integrated Europe.

Through his powers "to warn, admonish and encourage, the three concepts that I have in mind each day", the 62-year-old president has urged changes in many areas of German life, including the universities, pensions, the tax system, the financing of the federal states, corporate governance and the exploitation of scientific research. In an interview in Schloss Bellevue, his elegantly understated official Berlin residence, he told the FT that his job was "to point out the real problems that lurk behind those grabbing the headlines. That is the role that I play from the first to the last day".

His five-year term began in difficult circumstances after protracted party political wrangling. Although he was president of the constitutional court, he was not a well-known figure. Nor *was he the first nominee put forward* by the ruling coalition. He also had to follow the patrician Richard von Weizsäcker, who had elevated the presidency to a position of high moral authority.

The two men are very different. A *lilting* Bavarian accent is a reminder of President Herzog's far from aristocratic roots. He grew up in Landshut, north-east of Munich, the son of a museum director. Repeated references to the "different tribes of Germany" bear witness to a strong commitment to Europe's regions and his own regional origins. The precision with which he answers questions and a willingness to look at the big picture highlight qualities polished in academia, politics (he twice held ministerial office in Baden Württemberg) and the constitutional court.

His plain speaking and his ability to deliver often unpleasant messages with a warm humanity and underlying optimism have struck a chord in the German people. A recent public opinion poll by the Infas institute found *that he* enjoyed high approval ratings of around 70 per cent for his competence, his ability to generate trust and as a representative of Germany abroad. Appropriately enough for someone who at the age of 13 taught his father *Latin, no less than 85 per cent of* people praised the president for his erudition.

But there is a lighter side to President Herzog. He finds his job is a lot of fun. He is quick to chuckle and enjoys his free time. Because of a *bureaucratic slip-up,* he dropped out of school for more than a year at the end of the second world war. Perhaps because of this, he would like Germany to be "less uptight".

"I believe that a rather more *relaxed approach to life stimulates* more creativity and imagination than an approach geared more to effort. One thinks more. One can weigh better whether problems are as big as they appear."

In the course of an hour we asked him about his job, his vision of Germany in the globalised economy, the role of the nation state and his view of Europe. Germany's problems, he said, can be counted "on the fingers of one hand".

"We talk too much about new products and new technologies. Obviously each new product brings new problems but our attitude is to look only at the problems and not at the opportunities or the dangers that arise if we do not keep pace with a new development.

"*In recent decades* many things have been developed in Germany but not produced in Germany or exported from Germany. Put simply, the top management in many companies has lacked imagination and an awareness of problems.

"There is a reluctance to register patents.

"Fourth is the question of red tape. Too much has to be approved. Approval procedures last too long and are too cau*tious.*

"That hangs together with a fifth point which is the public's attitude and the attitude of our media. If a public authority acts quickly and it turns out to have made a mistake, the criticism is like a *tornado.*"

It was a characteristically punchy opening with swipes at business, bureaucracy and the media. But what if anything could he do about it?

"The German federal president *has no powers to take decisions.* But if someone like the president raises questions in public and keeps on raising these questions, then more and more people ask the same questions. I have been doing this for two years and I can *see the first successes.*

"Two years ago I pointed out that our tax system was in urgent need of reform. There was much excitement. Important figures questioned whether I hadn't exceeded my competence. Meanwhile, there is general recognition of the need for a simpler tax system and there are the first concrete proposals."

It is not just on taxes – an area of personal expertise – that President Herzog is prepared to run ahead of the government. His views on the dire state of German university education and the need for better relations with the Czech Republic have been radical compared with those of the Bonn coalition.

"My main watchword is not to pursue my own policy in relation to the government and parliament. But there is the possibility of going one step out in front where something has jammed or where in negotiations between two sides things appear to be getting more difficult than they are in reality."

Does this affect relations with Chancellor Helmut Kohl, who as prime minister of Rhineland Palatinate brought a young Professor Herzog into government and politics in 1972? The answer is diplomatic. "We understand *each other very well as human* beings. Some people say we look similar. Some say our mentalities are very similar, which may have something to do with our both being south Germans. But there is a certain distance that has to do with my office. That was so when I was president of the constitutional court in Karlsruhe."

He laughs at the suggestion that the government might try to rein him in as the Autumn 1998 general election approaches. "I made constitutionally sure of my independence long before I got this job when I was a constitutional lawyer 20 to 30 years ago." His determination to serve only one term of office, a decision which puzzles Germany's political class and vexes the media, gives him "the huge political advantage" of "complete independence".

So does he see himself as the *conscience* of the nation? "That may be. But conscience is a big word and I am not so fond of such big words. But at times you must appeal to people's conscience."

He wants Germans to show a greater sense of individual responsibility. "We need more individual initiative in the future. That is not just because many aspects of our social welfare state cannot be financed. It is because of demographic factors. If you have a society in which two thirds of the voters are relatively old, there remain few opportunities for young people to prove themselves and achieve successes if the state regulates everything.

"On the other hand, changes in the social welfare state have to be carried out with care. If you adopt a model of personal responsibility too abruptly, you run the risk that those people who have built their plans around the old system suddenly are left with nothing or less than they thought. You can't change a social system in the same way that you do a U-turn in the street. Instead you have to turn around slowly, like a big ship."

It will take time, too, for eastern and western Germany to come together. The eastern German economy has not progressed as far as he would have hoped. Psychologically, there are problems. He has few worries about the elderly in the east who have relatively high pensions and "are pleased that they are free and can travel freely". With the the young, "there are hardly any differences between east and west". Things are different with the 30 to 60 year olds: "they are the ones that have not only had to carry the economic burdens but also the full burden of the change of attitudes and they are the ones that we must worry about most".

But in talking about eastern Germany he underlines that "there have always been differences between the Germans of different tribes and different regions.

"There should be such differences in the future. That is an aspect of the life of the German people. And one must cultivate the different tribes, with different characters and different interests – including their different relationships in the middle of this continent with our nine neighbours on our borders."

This stress on regional identity sounds odd coming from a head of state. Does it indicate a coolness towards the idea of the nation state?

"No that would be wrong. I have a realistic analysis of the nation and the nation state. Nations will exist as far as we can see ahead. We will have Britons, Germans and French. We will also have nation states in which people of that nation live, certainly in the lifetimes of our children and children's children.

"But it is passé to believe that we can solve the major problems of today with the nation state. I only need to mention the fight against drugs or the problem of immigration, while just think of the very different language we now use in economic affairs. Our grandparents spoke of national economy, and they meant the economies of the various nation states. Today the talk is of globalisation and the world economy. You can't have a national currency policy today. And think also of environmental policies: you can't have a national environment policy if acid rain comes over your borders. These are areas where it is no longer true that the nation state can solve all problems. I believe that nation states will continue. But something else has to happen, too."

This brings us to Europe and the president's unstinting support for greater European integration.

He rejects the idea that Germany is seeking to dominate Europe. "The impulse to Maastricht came from the other European capitals and their fears about what to do when this big block of 80m people reappeared. We knew that we could only unify when at the same time we gave full recognition to the value of European integration."

He speaks of a united Europe, but uses the German word "*vereinte*" which means united in the sense of the United Nations rather than "*vereinigte*" which is used in the case of the United Kingdom. "I really believe we *need a united Europe to cope* with those things that the nation state cannot handle. That's not just an economic or a technological matter. We face huge challenges. Think of the 1bn Chinese, reverting to a sort of Confucianism. Think of the vitality of Hinduism and of Islam.

"I don't say that the Europe we are building is a matter of enthusiasm. We must consider soberly what is good. Practically every month, I tell the German people: *look at the world, then see how* small Europe is compared with the growing regions. We must work together if we want to maintain our style of life and our convictions. Also, Europe must be extended as far eastwards as *is possible, provided those* countries want it and they fulfil the conditions for co-operation beneath the European roof.

"I don't think we have a chance otherwise. I am not talking of wars or conquests. But simply about the challenge of economic blocks and equally about the challenge of new or *resurgent* ideological blocks which seem much younger than we Europeans with our enlightened liberalism. I don't want to lose this. We should make Europe united so that it can stand up for its own culture and *style of life in the world.*"

Time is getting short. He has a busy day ahead, including a ceremony to hand out federal service crosses to people who have contributed to society. Among those being honoured are Christo, the *Bulgarian artist,* and Jeanne-Claude, his wife, who wrapped up the Reichstag in silvery-grey fabric last year. President Herzog thinks it is a sign that Germany is becoming a more relaxed place.

"You couldn't have expected such a thing 20 years ago. Also look at how German unification day was celebrated in many cities this year – there was a party atmosphere."

And is Germany changing enough in other ways? "Things begin slowly and start to accelerate. And when the Germans decide to tackle something, then *that is what they do.*"

His ambition is to leave office having prepared his country to be better able to cope with change and "with the message of the Angel in the field in Bethlehem" nearly 2000 years ago: 'Be not afraid'."

Short biography

1934 Born on April 5 in Landshut, Bavaria.
1958 Marries Christiane Krauss
1966 *Professor of constitutional* law and politics at the Free University, Berlin.
1970 Joins Christian Democratic Union (CDU).
1971 Rector of the College of Public Administration, Speyer.
1973 *Chief representative of* state of Rhineland Palatinate in Bonn.
1978 Education minister in Baden-Württemberg
1980 Interior minister in Baden-Württemberg.
1983 *Deputy President,* Constitutional Court, Karlsruhe.
1987 President, Constitutional Court.
1994 President of Germany.

■ **The Mittelstand:** by Sheila Jones

Backbone of the economy

The Mittelstand companies account for half of the country's industrial turnover

In May 1930, a young German couple opened a small store in Amalienstrasse, Munich, selling "fine goods, wines, liquor and bottled beer". The store flourished, and in the 1960s, Paul and Elsa Käfer passed on the delicatessen and cafe business to their sons Gert and Helmut.

Today, Käfer has a turnover of DM130m, employs 700 people and is known across Germany for its upmarket speciality foods. It is run by Michael Käfer, grandson of the founder and majority shareholder. Michael Käfer, 38, is an increasingly rare breed in Germany's Mittelstand, the network of 3m small- and medium-sized, mainly manufacturing businesses at the heart of the German economy. The Mittelstand companies – most of which employ fewer than 100 people – account for half of the country's industrial turnover, about two-thirds of its jobs and four out of five apprenticeships. Often family-run, the Mittelstand's ageing generation of managers is struggling to establish the succession. The structure of the Mittelstand looks set to alter radically.

"Between 300,000 and 500,000 Mittelstand companies will change hands in the next three to four years," says Stefan von der Heiden, head of public affairs at the German Association of Small and Medium-sized Enterprises. "Quite a number will close down and many will be bought up by larger companies." Germany's big utilities, such as RWE, the electricity concern, are among those already buying up smaller companies, mainly in recycling and waste management. More than 420 SMEs were bought by the top four energy companies between 1990 and 1994.

Michael Käfer: an increasingly rare breed in the Mittelstand

Mr Von der Heiden believes one of the dangers of passing on family-owned enterprises to the next generation is that old skills will disappear. "There is an increasing possibility of craftsmanship being lost. Surveys show that only in three to four cases out of 10 are the sons and daughters of entrepreneurs emerging with their parents' skills.

"Another problem is that there is a growing gap between what you can earn working 60 hours a week as an entrepreneur and what you can earn if you make the money work instead. The sons and daughters of founders might decide it would be better to sell the family business, put the millions in the bank and live off the income without the bother of running a company," says Mr von der Heiden.

Hermann Simon, in his book, Hidden Champions, characterises the Mittelstand as "traditional and conservative at its core". Yet they are great innovators, fuelled typically by a "desire for independence, fascination with quality, and good labour relations". These "hidden champions", according to Mr Simon, may be less well known than the giants of German industry but many have established positions as global leaders in niche markets. Two examples are Webasto, world leader in sun roofs and car heating systems, and Hillebrand, the largest shipper of wines in the world.

The entrepreneurship of the owner-founders is believed to be at risk as companies sell up, bring in professional managers or hand over the business to a less committed, less focused younger generation. "My father had his own style and I have mine," says Michael Käfer, who has worked for the family business for 12 years and took over as chief executive three years ago. "My father did everything and he loved it. It was right for his time but as a company gets bigger you have to spread the responsibility. In my generation there are many entrepreneurial people. I am proud of our name and that is my motivation."

Stefan von der Heiden believes the next generation is more adventurous and less averse to risk. "They do things differently, more like the managers of larger companies. They are more open to new ideas, to restructuring and to raising money to expand, such as going to the stock exchange."

Undercapitalisation among Mittelstand companies is in part blamed on the reluctance of older managers to seek funds on the capital markets. Employers also point to difficulties raising loans from commercial banks, and to a scarcity of venture capital funding.

The state-owned Deutsche Ausgleichsbank is one of the few organisations geared to lending to SMEs and business start-ups. The bank made new loan commitments to SMEs of DM7.4bn last year. This was down from DM10bn the year before, reflecting a slowdown in business start-ups in eastern Germany, although the bank says start-ups have picked up.

Difficulties in raising finance have worsened for SMEs in recent years, according to Mr von der Heiden, because the commercial banks have grown more cautious after losses made on eastern German restructuring and on recent large business collapses, such as the failure earlier this year of Bremer Vulkan, the shipping group. "It is easier for a large company to get loans because the bank may already have invested say DM100-200m in the business and it needs to secure its interests. It's not the same for an SME which has developed a product and needs DM500,000 to get it to market. It's not that the banks will not take risks, but that they want to take the risks with their big partners in industry. It's impossible to think of a German Bill Gates. If you have an idea you'll find a bank that says 'Great idea, where's the security?'."

The Mittelstand companies have been squeezed in the recession, with self-financing growth giving way to rising costs, job cuts and record bankruptcies. Yet, as the country's main source of job creation, it is the Mittelstand Chancellor Helmut Kohl needs to fulfil his pledge to halve unemployment by 2000. It will be an uphill battle despite recent measures to reduce the tax burden on business.

In the past three to four years, only companies with fewer than 50 employees have emerged with a net surplus of jobs, according to Stefan von der Heiden. Those with 50-100 employees have made no net job gains and companies with more than 100 employees have made job cuts. "The bigger the company, the bigger the losses," he says. "Even among the smaller companies still creating jobs, they come only in the first two to three years so we need to increase the number of new businesses, too. Everybody says the SMEs must improve the economy but not many of them talk about how they should do it. The attitude of banks must change, and the tax system has to be reformed so that, among other things, businesses are not so badly burdened by bureaucracy which limits their ability to reinvest."

The SMEs best-placed to survive into the next millennium will be those ready to concentrate on the high quality end of their business and to forge local and international partnerships. "The most positive point for the SMEs is that they are very close to their markets and they are much more flexible than larger companies," says Mr von der Heiden. "The Mittelstand will continue to be the backbone of the German economy, I have no doubt about that. Fulfilling our ambition to participate in global markets will be the most important factor in the decade ahead."

PROFILE Jürgen Schrempp, head of Daimler-Benz

Jürgen Schrempp: a strong believer in lean corporate structures

An aggressive leadership style

The next battle will be to reform the company's corporate structure

Jürgen Schrempp has made many enemies in his 17 months at the head of Daimler-Benz, Germany's largest industrial group.

The company's employees have turned on him because he axed thousands of jobs at Daimler-Benz Aerospace (Dasa) and other business units. Shareholders turned on him because the company lost DM5.7bn last year. His decision to pull out of Fokker, the Dutch regional aircraft company, almost caused a political crisis between Germany and the Netherlands.

The Fokker decision was a particularly controversial move for a man who, as a former chairman of Dasa, was the driving force behind the Fokker acquisition in the first place.

In his best-known statement, he told Trouw, the Dutch newspaper: "I'm the first top man who lost DM2.3bn in a gamble and who says without hesitation 'this was all my fault'. While other managers get fired for DM50m, I am still here. Do you think this is arrogant? You seem to. Well, write it down."

Early this month, however, Mr Schrempp suffered a rare defeat in a battle over sick pay. Daimler wanted to cut sick pay entitlement from 100 per cent of wages to 80 per cent, a decision it later had to withdraw because of heavy protests from the union and warning strikes.

The dispute will prove no more than a temporary setback for Mr Schrempp, who has brought a new aggressive leadership style to the company and to the German corporate scene at large.

Mr Schrempp is one of the main advocates of shareholder value, and a strong believer in lean corporate structures where the top management exerts direct responsibility over the business units.

His next battle will be to reform the company's corporate structure. This dates back to the 1980s, when Edzard Reuter, Mr Schrempp's predecessor, divided the company into four units: Mercedes-Benz, the car and truck maker; the now defunct AEG, the industrial and energy group; Dasa, the defence and aerospace group; and Debis, the financial services and software company.

Daimler itself is a holding group, whose main function is to allocate financial resources and to take strategic decisions that affect all parts of the operation. Mr Schrempp wants to collapse the system by giving the Daimler-Benz board – and therefore himself – more direct responsibility for the units. The boards of the individual units would therefore become redundant.

It is little wonder that the proposal has led to internal controversies, especially within Mercedes-Benz, which accounts for most of Daimler's turnover and virtually all of its profits. Helmut Werner, chairman of Mercedes-Benz, opposes the axing of the divisional boards.

All this is part of Mr Schrempp's master plan to change Daimler from a company driven by the dubious vision of an integrated technology concern, into a company with a much narrower focus on transportation technologies – cars, trucks, aircraft and trains. The number of business units were cut from 35 to 25 in the process and each unit has been given the task to achieve a return on capital employed of at least 12 per cent.

Mr Schrempp says that he greatly admires Jack Welch, chairman of General Electric, the US group, which has long pursued a similar portfolio-type operation, only much more aggressively and more successfully. Mr Schrempp believes he will not be able to move all the way in the direction of GE, not least because under German labour laws it is virtually impossible to run a company exclusively in the interest of its shareholders.

Looking behind the tough facade, Mr Schrempp is not as cold and as tough as he appears. He supports the German system of co-determination, and he believes that companies should serve their clients, their employees, and their shareholders in roughly equal proportions. What happened at Daimler, he said, was that the company had focused too much on serving its employees and neglected its shareholders. His job, he said, was to redress the balance.

At 52, Mr Schrempp is part of the first genuinely post-war generation of top business managers who are now gradually taking over the top jobs in German boardrooms.

He was born in Freiburg, in the south-western corner of Germany, where he started as a motor mechanic at a local Mercedes garage. He later went back to university, returned to Daimler-Benz and worked his way up the corporate ladder. In the 1970s he worked for Mercedes in South Africa. He then went to Cleveland, Ohio, where he worked for a truck subsidiary in the early 1980s, and later returned to South Africa as the top manager.

In the late 1980s he became chairman of the newly-formed Dasa, and then pulled off his biggest coup by taking over as chairman of the whole company.

Wolfgang Münchau

■ **Venture capital:** by Andrew Fisher

Promise is being fulfilled

The climate for risk capital looks like it is becoming more favourable

As Germans wonder where the jobs of the future are to come from, the thoughts of bankers, politicians and businessmen turn increasingly to venture capital. But this form of risk finance, mostly the preserve of small, specialist investment houses, has never really taken off in Germany. For various reasons – high taxes, risk-aversion among investors and a stock market which is too narrowly based – venture capital remains a sector of more promise than fulfilment.

This could be about to change, though how quickly and decisively is hard to say. As the government sets about breaking down bureaucratic and financial barriers to business activity, cutting high labour and social security costs, and encouraging more depth and flexibility in equity markets, the climate for risk capital looks like becoming more favourable.

With big companies shedding labour in the struggle to meet powerful global competitive forces, the drive is now on to help smaller firms, especially those in the fast-growing technology and service sectors. From Chancellor Helmut Kohl downwards, the call has gone out for Germans, especially the young, to think less about security and more about risk.

That means a greater willingness to start new companies and thus a greater need for equity finance to support them in their early and developing stages. "There is a need for more start-ups, which seems surprising in a country so orientated towards the Mittelstand [medium-sized companies]," says one Frankfurt banker. "The discussion of labour costs and infrastructure – including the overwhelming level of bureaucracy – is also driven by the capital market system and how much risk capital it can provide."

Whether or not many politicians really understand the nature of venture capital, in which big institutional and wealthy private investors are prepared to accept several failures for every startling success, is open to doubt.

Although serious moves are being made to cut and simplify Germany's taxes, the idea of special incentives – such as tax holidays – for investment in new and risk-prone companies has yet to gain ground.

Some venture capital specialists would be happy if taxes were simply reduced, as the government now plans in 1999. By then, moves to set up a special section of the Frankfurt stock exchange to trade in dynamic, young growth companies should have borne fruit. This Neuer Markt (new market) is due to start in the first quarter of next year, later joining up with similar operations in France and Belgium to offer an alternative (the Euro.NM) to Easdaq, the recently launched version of Nasdaq, the US technology-orientated exchange.

Since Nasdaq took some years to develop any real impetus, Deutsche Börse, which operates the Frankfurt stock and futures exchanges, is careful to point out that the Neuer Markt should not be expected to produce runaway profits for investors and a flood of exciting new flotations right from the start. The initial aim will be to attract mainly foreign institutional investors – such as pension funds, which do not exist in the Anglo-Saxon form in Germany – wanting to enhance long-term returns by putting a small part of their money in high-risk shares.

Some bankers are sceptical about whether the Neuer Markt, which will have stringent listing and reporting requirements, will be a success. But it has the backing of Deutsche Bank and other banks and the exchange is taking pains to see the new risk market is as liquid, transparent and efficient as possible.

In the meantime, Germany's young technology-based companies are striving to be listed on Nasdaq. Qiagen, a biotechnology operation based near Düsseldorf, this summer became the first German company to achieve a Nasdaq quote, albeit through a Dutch holding company. It regretted that it had to go to the US for new funds for further expansion, but said the investment mentality in Germany was still not ready for young, thrusting technology concerns.

German investors do tend to distrust new technology. But with a younger more open-minded generation looking for better returns, and made more prosperous by inherited wealth, their horizons could widen. The success of new markets such as Easdaq and the Neuer Market will be vital, however, for the development of a bigger and healthier venture capital sector. One of the biggest complaints of bankers and investors in the sector is the lack of exit possibilities for those wanting to take profits.

Companies, too, need to become more flexible. Many are unwilling to give up equity to investors or to countenance any form of outside influence on management. Yet both are necessary for new companies to thrive, especially where the emphasis has been on technology and product innovation rather than marketing or financial discipline. Powerful as the German economy is, there are areas in which it has much ground to make up.

Industrial relations: by Wolfgang Münchau

Breakdown of consensus

Even though labour law remains inflexible, cracks are opening up

A mid-sized manufacturer of heating systems has emerged as the symbol of the changing attitudes in German industrial relations.

Viessmann, based near Kassel in the middle of Germany, was sued by IG Metall, the engineering union, for breaking the biggest taboo in German labour relations: the company negotiated a labour deal with its own workforce without prior approval by the union.

In August, Viessmann won a celebrated victory in court, but the judges attached so many qualifications that everybody claimed to have won.

This is what happened in the run-up to the court case: Viessmann had planned to build a factory near Prague for a new product range. The company calculated that a factory in the Czech Republic would bring accumulated cost savings of DM20m.

The company's German workers were alarmed and agreed to an unusual deal which required them to work an extra 3 hours a week for free, to take their total weekly working hours from 35 to 38. The deal increased efficiency by 8.6 per cent and yielded savings of just under DM20m.

But under the German system of industrial relations, workers are not free to negotiate their own fate. Works councils may enjoy extensive co-determination rights, but wages and working hours are the exclusive territory of the trade unions under what is known in Germany as the principle of "wage-tariff autonomy". This was the basis for the suit.

The verdict was a setback for IG Metall, but it did not rock the exclusivity principle. Viessmann won only because no more than 10 per cent of its employees are IG Metall members.

Even though German labour law remains inflexible, the country's industrial relations system is changing. Several companies have reached deals similar to those at Viessmann. At Bizerba, a manufacturer of scales in south-western Germany, the workers agreed to wage cuts of 5 per cent. At Traub, a machine tool maker, employees agreed a similar deal.

These deals show some of the cracks that are opening up. German employers are now starting to challenge almost every aspect of the system.

The catalyst for the change – though not the cause – is the opening of eastern Europe. Wages in the Czech Republic are a fraction of wages in Germany, while productivity is not far behind. The single European market is also beginning to show its psychological effects, as German investors are beginning to regard the EU, rather than just Germany, as their home market.

> **Employers are challenging almost every aspect of the system**

Mercedes-Benz, the car maker, no longer advertises its product as "made in Germany" but as "made by Mercedes-Benz". As a consequence the company has broken with age-old taboos and is planning to produce some of its cars in France and the US.

German companies are not yet leaving Germany in great numbers, but they are choosing foreign locations for new investments, as the cases of Viessmann, Mercedes-Benz and numerous others show.

This has left Germany stuck with high unemployment of almost 4m people, around 10 per cent of the work force. There is also substantial hidden unemployment – because of early retirements, special training schemes that lead nowhere, military service and long university courses.Including these effects, real unemployment is 7m or higher.

The German system of industrial relations used to revolve exclusively around the relationship between unions and employers. In the early 1970s, even the government joined in the cosy relationship through what became known as "concerted action".

The idea was that co-operation between the main forces of society would bring greater macroeconomic benefits instead of industrial strife, as was the case in the UK at the time. Competition was confined to products and services, but did not extend to the labour market.

Since then, profit margins have come under pressure because of the emergence of low-cost producers in Asia and eastern Europe. For a while German manufacturers basked in the hope that high quality would command higher prices. But they found it impossible to stretch this argument beyond its natural limits. Germany has since lost a great deal of its international competitiveness.

One might have thought that the rise in foreign competition might have strengthened the companies' hand in the relations with the trade unions. But so far they proved reluctant to use the power, because they feared an open industrial and legal confrontation with Germany's powerful trade unions. This also includes the likes of Viessmann, which has chosen to remain a member of the employers federation.

While members are not yet leaving the federations en masse – and with it the system – they are certainly getting more impatient. They are insisting on opt-out clauses in wage contracts, so they can reach deals similar to those at Viessmann. Gesamtmetall, the engineering employers' federation, is asking for these opt-out clauses as part of the current wage round.

The surprising stoicism of the employers may not last forever. Werner Stumpfe, president of Gesamtmetall, says that failure to modernise the structure would ultimately bring the demise of the whole system within the next four or five years.

Some employers go even further and are beginning to challenge aspects of co-determination. Until only a few years ago, German companies boasted about the system, which they upheld as the prime reason for Germany's excellent labour relations. They argued that the benefits outweighed the economic costs the system has imposed.

But German companies have realised, from experience in their foreign operations, that excellent labour relations come a lot cheaper. While they would still support plant-level co-determination, they are beginning to challenge other aspects, such as the requirement that supervisory boards in large companies be made up of workers and shareholders representatives in almost equal numbers.

German politics is beginning to address some of these changed sentiments. Chancellor Helmut Kohl may still be wedded to the concept of the social market economy, but his statements are largely rhetoric and metaphoric, as is indeed much of the German debate. When his government needed to pass a wide-ranging savings package to meet the Maastricht economic criteria, it did so with surprisingly little opposition.

The most contentious clause in the package was a cut in statutory sick pay, which went down from 100 per cent of wages to 80 per cent. The unions have been threatening a serious confrontation, since they regard the right to full sick pay from the first day of illness as one of the great achievements of the German labour movement. But even the unions do not think that they will ultimately prevail in this dispute.

The sick pay debate shows that Germany may be a reluctant convert to welfare reform. But the system is changing out of necessity, and it scares the living daylights out of most Germans.

PROFILE Klaus Zwickel, president of IG Metall

A rags-to-riches career

Employers know they have a tough opponent to their proposals for welfare reform

In 1954, as a young trainee toolmaker, Klaus Zwickel paid DM1 to become a member of IG Metall. He did not join the union out of conviction, nor did he come from a particularly political family. An older colleague had told him that this was what everybody did, so he joined.

Since then, Mr Zwickel has pursued a rags-to-riches trade union career. He started off as a fee collector, moved through various regional and national posts, and in 1993 he took over as president of the world's largest industrial union, with almost 3m members.


Klaus Zwickel: a rags-to-riches trade union career

Mr Zwickel, who succeeded the suave Franz Steinkühler, a man with sharp suits and an even sharper tongue, does not hide his working class origins. He speaks with a south-west accent; his appearance is wooden; he rarely talks in soundbites. Even by the standards of German trade unionists, Mr Zwickel comes across as old-fashioned.

And yet, over the last year, he has shown a surprising killer instinct. This month, he prevailed in a bitter dispute with engineering employers over proposed cuts in sick pay. Some large companies had decided to cut sick pay from full wage to 80 per cent in line with a new law, but the employers underestimated the strength of feeling among trade unionists over this issue.

In the 1950s, when Mr Zwickel was a young union official, IG Metall became involved in one of the biggest disputes in the history of German industrial relations: the union demanded contractual sick pay guarantees, and the issue has since been loaded with a highly symbolic and emotional content.

Given the strength of feeling on this issue, Mr Zwickel went for full impact when he called for a series of warning strikes at Daimler-Benz, the automobile and defence group, which started the campaign for cuts in sick pay. The company buckled under the weight of the protests, which have cost it DM200m in lost production.

Daimler-Benz, and other employers involved in this issue, broke the cardinal rule in industrial relations: never pick a fight with IG Metall unless one is ready for battle, and willing to take a hit in the short term.

Mr Zwickel emerged as a master tactician who has now outfoxed employers twice within a year. In November 1995, he launched his "alliance for jobs" programme, a wide-ranging proposal whereby he offered wage moderation in return for 300,000 new jobs over three years.

The proposal failed in its own right, but met with a huge public response, which partly reflects the country's wish to seek a solution to the unemployment problem without giving up on the country's existing consensual structures of industrial relations. The problem was reminiscent of the days of concerted action in the 1970s, where the government, employers and the unions sit together to resolve their problems.

The "alliance for jobs" was adopted in the chemicals industry, which has traditionally enjoyed better industrial relations, partly because of fatter profit margins.

The proposal flopped in the engineering sector, however. Engineering employers announced this month that by the end of the year they will have cut 130,000 jobs, rather than create the 100,000 that Mr Zwickel had sought. Furthermore, Gesamtmetall, the engineering employers' federation, said that even if it accepted the proposal, there was no way it could guarantee that its 8,000 members could deliver on the promises.

German industry has been suffering from the world's highest wage costs and fast-declining profit margins. It was unlikely that the employers would start giving job guarantees on the basis of promised wage moderation.

Although the initiative was a non-starter, Mr Zwickel has received top marks for effort as he outmanoeuvred his opponents, who came across as unco-operative.

For a brief period this year Mr Zwickel became a regular guest at high-level industrial policy meetings with Chancellor Helmut Kohl, but relations have since soured.

German unions are traditionally at their best when they fight with their back to the wall. Mr Zwickel and his colleagues can be expected to put a good fight when required, and employers may well be thinking that the IG Metall president has already succeeded in his declared goal of putting the brakes on plans for welfare reform.

Wolfgang Münchau

■ **Telecommunications:** by Michael Lindemann

Gold-rush expectations

There are just over 420 days left before Europe's biggest telecoms market is liberalised

A hastily negotiated telecommunications alliance between Veba and RWE, announced earlier this month, vividly underlines how fluid the German telecoms market is and how complicated predictions about its future are.

For one, Veba and RWE are the most unexpected of partners, if only because RWE had for nine months been negotiating an alliance with Viag, the Munich-based conglomerate, and British Telecommunications (BT).

Respectively, the two utility-based groups are Germany's fourth and fifth biggest listed companies and intense rivals. The match is still more surprising because both are set on becoming leading rivals to Deutsche Telekom and have ambitions which will be difficult to reconcile.

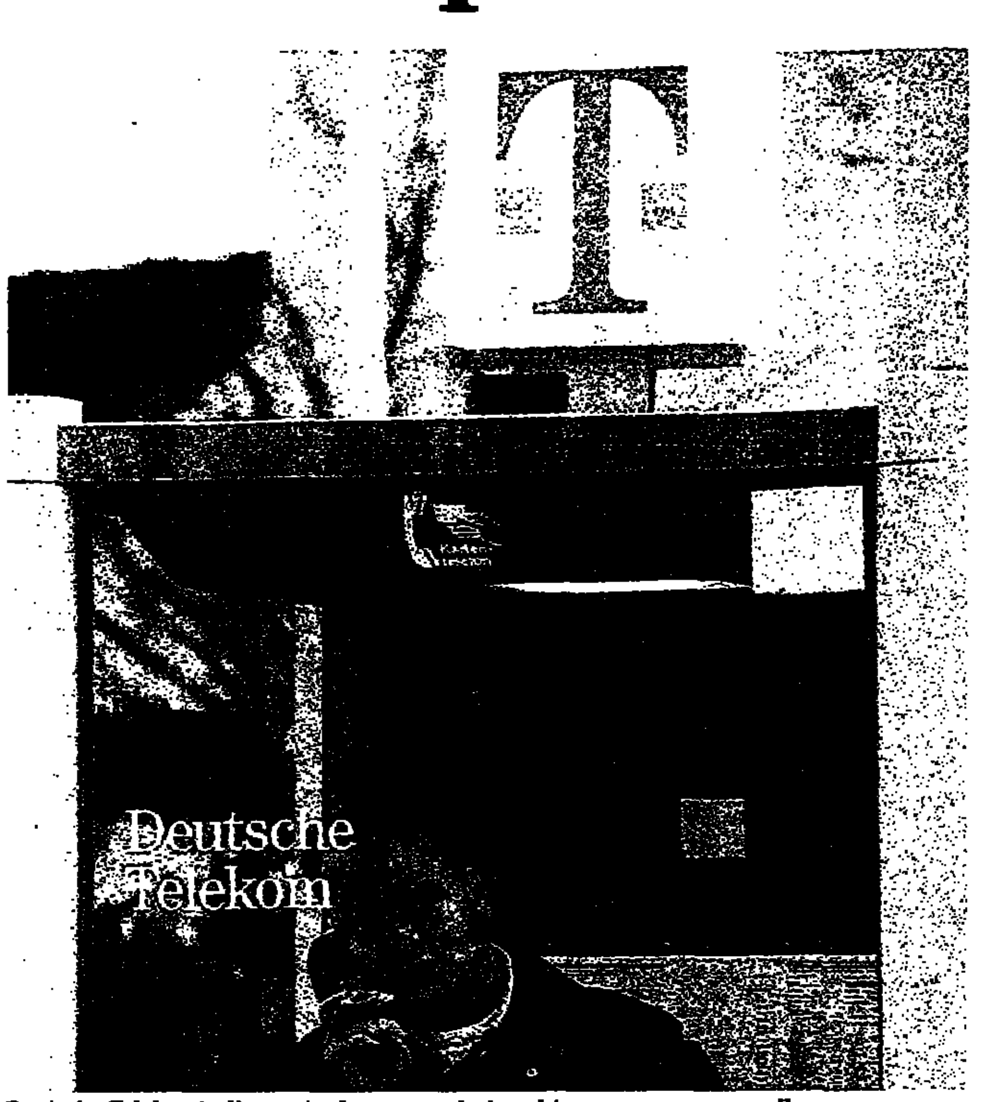
The sudden link-up also raises numerous questions about the technological development of the market. RWE and Viag parted company because the former believes it can make money by renting space to transport telecoms services along electricity grids which it and other utilities own.

Viag, on the other hand, has an 18-month-old partnership with BT and hopes to spearhead its telecoms strategy with Germany's fourth mobile phone licence.

That service, it says, will be the first in Germany available to fixed line and mobile customers at the same time using a technology called fixed mobile conversion.

The winner remains to be decided. However, there are just over 420 days to go before Europe's biggest telecoms market is liberalised and executives and analysts alike are forecasting that early next century the telecoms industry will overtake the automotive industry as Germany's single biggest generator of gross domestic product.

As one executive put it recently, leading German companies are searching for new growth businesses to invest but there is only ever one candidate: telecoms.



Deutsche Telekom's discount schemes are designed to encourage more calls

RWE's switch of allegiance was so sudden that it has sparked an almost unprecedented round of speculation about who might do what with whom in German telecoms.

Analysts believe BT may now try to squeeze AT&T, the US operator, out of its tentative alliance with Mannesmann, the engineering and telecoms group which has emerged as the leading competitor to Deutsche Telekom, thanks mainly to its booming D2 mobile phone service.

AT&T, analysts say, is distracted by developments in the US and has not focused properly on the German market.

Furthermore, BT forced the US operator out of its alliance with Societe Générale des Eaux, the French conglomerate, and took its place alongside Mannesmann.

The French connection raises other tantalising prospects. Viag has hinted that it, too, might take a stake in Cegetel, the telecoms operator created by CGE, BT and Mannesmann, which in turn may take a stake in the Viag/BT alliance where newcomers will be welcome following RWE's abrupt departure.

If AT&T is spurned, executives believe it will attack the German market alone, focusing on call-back services and on re-sale, where telecoms operators buy wholesale quantities of telecoms services and sell them on to their clients.

Two years ago having a German partner was considered an essential first step for foreign operators eyeing the lucrative German telecoms market. That now appears to be less of an imperative and AT&T is certainly big enough to go it alone in the German market.

Certainly, the last 18 months have provided something of a jolt for the would-be operators Veba, Viag, RWE, Mannesmann and Thyssen.

They had counted on being able to lure many of Deutsche Telekom's corporate clients away and use those businesses as a building block for broader telecoms offensives. The strong profitability of Mannesmann's D2 mobile phone network helped contribute to what one executive described as "gold-rush" expectations.

However, since many of them unveiled their telecoms strategies early last year, Deutsche Telekom appears to have outwitted them. For one, the company plans, from November 1, to offer corporate clients tantalising discounts of up to 39 per cent off their phone bills.

Those discounts alone have caused a "reassessment" of the strategies which the private operators were plotting, according to a telecoms analysis by BZW, the investment arm of Barclays Bank.

City Plus and City Weekend are other discount schemes which Deutsche Telekom will introduce early next year to encourage residential clients to use the phone more often.

As liberalisation draws nearer further measures are likely to follow, designed, despite the company's dismal image, to prevent clients from rushing to the competition.

And if Deutsche Telekom is causing the private operators trouble with its discount schemes it can be expected to cause them even more anxiety with its interconnection charges, the money it will charge to carry the private operators' telecoms services over its network.

The company will be able to set the interconnection fees not only to reflect its own operating costs and overheads but also to include historic costs and "past burdens", a formula which is expected to ensure that the charges remain high.

Most important of all for the new entrants, however, is the shape and policy of the new regulatory authority which will set the guidelines for competition in Germany's telecoms market once the ministry for post and telecoms ceases to exist at the end of 1997.

Many industry executives fear the authority will be run by a politician who will go easy on Deutsche Telekom, if only because the government will still own 80 per cent of the shares and will be keen to maximise the revenues from the sale of that stake sometime around the turn of the century.

Instead, they say, an experienced executive or academic should run the authority, determined more to create real competition than safeguard Deutsche Telekom's earnings.

The only certainty is that interest in Europe's biggest telecoms market is considerable and will increase as liberalisation approaches.

As that day approaches, however, expect the private operators' forecasts for sales and profits to head downwards as they realise the difficulties of the battle ahead.

A recent report by Deutsche Morgan Grenfell, the Anglo-German investment bank, attempts to put some of those forecasts into context: the bank estimates the private operators will generate sales of DM13bn by 2005. The "combined stated projections" of the private operators suggest sales of DM36bn.

PROFILE Werner Stumpfe, president of Gesamtmetall

Employers' champion for the second time

Relations with the union IG Metall hit rock bottom over the sick pay row

When Werner Stumpfe became president of Gesamtmetall, Germany's largest employers' federation, for the second time in June, he found himself within a few months at the centre of a dispute over sick pay. This developed into one of the most bitter labour wrangles his organisation has faced.

In a highly controversial decision, which he may since have regretted, Mr Stumpfe recommended that engineering companies implement a new law to allow lower sick pay entitlements from October 1. Some companies, such as Daimler-Benz, followed his advice. IG Metall, the metal workers' union, fought back with strikes forcing Mr Stumpfe to back down. However, the fight to cut labour costs continues.

Relations with IG Metall have never been cordial, but they hit rock bottom over the sick pay row.

The present climate is in sharp contrast to the mood in the expansive 1980s. During his first term of office, from 1985 to 1991, Mr Stumpfe led the industry through a period of strong economic growth and the upheavals caused by German unification. There were no strikes during Mr Stumpfe's first presidency but his numerous critics from inside the organisation never tired of pointing out that the industry paid a high price in terms of wage costs to secure this long period of peace with the unions.

From 1992 to 1994, Mr Stumpfe was a member of the board of Axel Springer, the media group, where he was responsible for human resources. He had a similar position for 10 years at Mannesmann, the diversified engineering group. This year, Mr Stumpfe returned to Gesamtmetall in a full-time capacity.

In between his two terms as president, conditions in the industry had changed drastically. Once he could have been described as almost popular with trade unionists. Now he has incurred their wrath after leading the controversial campaign for sick pay cuts.

When Mr Stumpfe returned to the helm of Gesamtmetall, he saw an industry that had significantly higher wage costs with a consequent squeeze on profit margins. Relations with employees were also at a low ebb.

In an interview before the recent dispute, Mr Stumpfe said: "There is more impatience in our camp. Nobody is prepared to wait for another two years until we reach a decent wage settlement. They [member companies] want it here and now. They have grown more intolerant of generous wage deals. They are no longer prepared to call something half-right that is half-right. They call it wrong.

"What they are saying to me is this: 'Mr Stumpfe, you can count on our solidarity only as long as it does not cost us any money.' They are taking a harder line. They have become more impatient. You could say it is the selfish recklessness among employers which is the biggest change I have noticed."

It is against this backdrop that Mr Stumpfe will have to lead engineering employers into the wage round, which promises to become one of the most difficult in many years. At issue is not only pay, but also entitlements, a subject on which IG Metall is unlikely to compromise.

Mr Stumpfe predicts that the industry will have lost around 130,000 jobs by Christmas. "I fear these cuts will continue, but I also believe that as wage negotiators we have the power to bring change." He predicted that this was going to be "the worst wage round since 1949".

The main change is the way employers are perceiving the negotiations. Previously the employers played the game straight, hoping to reach the best deal possible. "Today, they say: 'I have four or five excellent escape routes, which allow me to hedge the consequence of a bad wage agreement. I may just relocate 10,000 jobs to the Czech Republic, or I source out. In that case, the industry can reach whatever agreement they like, however bad, because I can escape.' Would you want to have an agreement with such an employer?"

The different attitudes among German employers have also reopened the age-old question about the structure of the engineering employers' federation. The real power lies with the regional bodies, which are negotiating with their counterparts among the trade unions.

There have been numerous calls to centralise the organisation, which would reduce the scope for regional federations to buckle under heavy union pressure. This has been resisted especially by the regional federations themselves. The idea behind centralisation would be to avoid wage contracts, such as those agreed in Bavaria early last year, which led to an 11 per cent rise in wage cost over a two-year period.


Werner Stumpfe: angered trade unionists over sick pay cuts

The engineering employers eventually agreed on reforms, but they kept the present structures largely in place and created new structures to co-ordinate between the various bodies. Some German commentators said the failure to centralise was a defeat for Mr Stumpfe. However, Mr Stumpfe says this is the best deal in the current circumstances.

He remains a passionate supporter of the German system of industry-wide regional wage bargaining. He thinks that the system has protected many employers from potentially harmful labour disputes.

He hopes that German employers, despite their present militant mood, will not turn their backs on a system which, he says, has served them well.

Wolfgang Münchau

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■ **Motor Industry:** by Haig Simonian

Comfort for vehicle industry

Carmakers remain restricted by high costs and inflexible labour practices

Europe's car market has grown more strongly than expected this year, providing some comfort for Germany's hard-pressed vehicle industry – one of the main motors of the economy.

However, the 8.2 per cent rise in European car sales in the first eight months is deceptive, because much of the growth stems from government or industry incentive schemes.

Germany itself has been one of the strongest markets, with sales rising by 7.2 per cent to 2.44m units in January-August, compared with the same period last year.

It has, however, also been one of the markets in which incentives have been most evident. Unlike neighbouring France, where a government incentive programme has just ended, the German schemes have been manufacturer-driven. That has pushed sales faster than in most other big car markets. But it has also distorted demand, with sales pulled forward by discounts and special offers.

Special incentives have been just one of the problems facing the German motor industry. For all its reputation for quality and reliability, Germany's carmakers remain restricted by high costs and inflexible labour practices. Volkswagen, the market leader, believes it can employ a skilled worker at Skoda, its majority-owned subsidiary in the Czech Republic, for one tenth the amount the same employee would cost at home.

Only gradually are the carmakers tackling their efficiency problems. The pace is partly dictated by powerful unions or, in the case of VW, the fact that the state government owns 20 per cent of its shares. Social disharmony is not politically acceptable.

But the industry is gradually grappling with its handicaps. The threat of moving production abroad has been a powerful tonic: in many plants, workers have agreed to labour reforms when faced with the stark choice of jobs moving.

In the market, meanwhile, German manufacturers have held their own. The big winner this year has been the VW group, which has steadily extended its lead over General Motors – its nearest rival. The group now accounts for more than 17 per cent of the west European new car market, up almost one percentage point on last year.

VW's growth has been accelerated by its brands. Audi's A4 has been instrumental in polishing its image as a rival to BMW and even Mercedes-Benz. In Germany and Europe, the A4 has challenged the BMW 3-Series as the dominant lower-mid-sized executive saloon.

Audi's star should rise further with the A3, which is based on the engineering structure (platform) of the next generation VW Golf. Early indications are that the A3 has been selling above expectations.

The core VW brand has also been thriving. The Golf – Europe's most popular car – will be replaced next year, leading some analysts to fear excessive discounting to maintain sales. However, the smaller Polo, launched in 1994, has gone from strength to strength, and is now even available in a multicoloured Harlequin version.

The new VWs, supplemented in September by the new Passat saloon, are the first examples of the "platform strategy" pioneered by Ferdinand Piëch, the chairman. To achieve significant economies of scale, he has deemed future cars should be based on just four platforms. While the new models will share much under the skin, they will look different outside.

Although platform-sharing could risk over-simplifying the brands, the early examples suggest it has been well-conceived. The Audi A3, Skoda Octavia and the future Golf and Seat Toledo models will share platforms.

Germany's other carmakers are also doing relatively well in the difficult market conditions. BMW and Mercedes-Benz are benefiting from important new models. BMW's 5-Series and the Mercedes-Benz E Class are head-on competitors. Yet both are sufficiently different in design and character to leave room for both marques to grow.

Both companies have also diversified into niche models. Mercedes-Benz's new SLK convertible is an attractive two-seater, which, while not cheap, is appreciably less pricey than its established SL two-seater.

Both BMW and Mercedes-Benz have linked niche products to foreign expansion. Both have built new factories in the US to make cars predominantly for the American market. Apart from reducing transportation costs, the plants offer a hedge against the currency fluctuations which have caused so much havoc.

So far, only one of the new vehicles – BMW's Z3 convertible – has gone on sale. It has received a rapturous reception on both sides of the Atlantic. The signs are that Mercedes-Benz's new V Class sports utility vehicle, which should appear next year, will prove as popular.

The similarities between BMW and Mercedes-Benz extend to the risks they are taking to broaden their coverage. Both have decided they must expand beyond relatively expensive executive cars to offer a wider choice. While niche vehicles such as the Z3 and the SLK go some way, they are only part of the solution.

However, the two carmakers have chosen different ways to develop. BMW has bought Rover, the UK carmaker best known for its Land Rover vehicles. While Rover has almost doubled BMW's output, it has given it a bootful of problems.

Mercedes-Benz has opted for organic growth. It is developing two new cars which will greatly increase its coverage of the lower end of the market.

Unlike its bigger rivals, Porsche has no intention of moving too far downmarket. After brushing with bankruptcy in the early 1990s, it is determined to specialise in high-performance sports cars. But even Porsche has recognised it must broaden its range – without compromising its brand values, as happened in the late 1980s.

Last month it launched the Boxster, its first new car for about two decades. The new convertible will be followed in about two years by a successor to the venerable 911.

The VW Polo is now even available in a multicoloured Harlequin version

■ **Wage round:** by Wolfgang Münchau

Autumn poker game begins

The principal issue for employers is the country's high wage costs

Game theory is an unlikely discipline to have emerged as a favourite in German economics departments, given the country's reputation for risk-aversion. Reinhard Selten, the economics Nobel laureate at the University of Bonn, once said the German system of regional wage bargaining was a classic application for a theory that deals with co-operative and non-co-operative strategies.

Every year or two, German employers and trade unionists meet for the "wage poker game", where they set the wages and other contractual rights and duties for the vast majority of German employees. The meetings are usually accompanied by threats and bluffs, and it has become a fine art for observers to tell one from the other.

The players themselves also act according to a set of standards and rules. Klaus Zwickel, president of IG Metall, the engineering union, has been specifically trained in the art of wage negotiations, a field he has pursued for most of his professional life.

When Werner Stumpfe took over as president of Gesamtmetall, the engineering employers federation, Mr Zwickel welcomed the appointment of his opponent not because he sees him as easy prey, but because "he is a pro".

The two sides have returned to their regular wage poker game this autumn. With 8,000 companies and around 3m employees, the organised engineering sector is the largest in Germany, and its outcome will reverberate on other sectors of the economy.

The wage round is especially difficult because the two sides are under heavy pressure from an increasingly hard-line membership.

Mr Stumpfe even pulled the ultimate game card, when he said the outcome would not only determine wages but the future of the game of wage bargaining itself. Mr Stumpfe's threat reflects impatience among his members who feel they have been losing too many rounds in the past. As a result, everybody is sceptical from the outset.

Mr Zwickel said the wage round would deal with "explosive" issues, and warned that the future of the welfare state was at stake.

Mr Stumpfe was equally blunt. "There is no occasion for optimism. The content is massive. The views are wide apart. And both sides have to deal with high expectations among their members. These talks will also determine whether the German systems of regional industry-wide wage bargaining has a future."

The principal issue for employers is the country's high wage costs. According to Gesamtmetall figures, the total hourly wage cost per worker in Germany was DM48.34 on average in 1995, of which DM21.65 was accounted for by indirect wage costs – social security payments, sick pay, fringe benefits and a host of other smaller items.

Wage costs in other industrialised countries are significantly lower: DM30.42 in Sweden, DM26.80 in the US and only DM22.12 in the UK. Moreover, British engineering companies only pay DM6.32 an hour in indirect wage costs.

The previous wage round, in the spring of 1995, is now seen as one of the reasons for the large and widening gulf between wage costs in Germany and elsewhere. It was then that Bavarian engineering employers agreed a deal to push wage costs up by 11 per cent in the two-year period 1995/96.

The deal set the trend for other regions, and was furiously criticised by several companies. A few have left the employers federations in protests. Others have threatened to leave, unless their negotiators do better this time.

Gesamtmetall and its regional affiliates are under heavy pressure to achieve a deal that will not increase wage costs, or at least not increase wage costs beyond the rate of inflation. But with inflation at less than 2 per cent, Gesamtmetall does not have much leeway.

The employers are looking for a formula under which actual wages would rise in line with inflation, with offsetting cuts in other wage costs elements, such as sick pay and bonus payments. Their bottom line, however, is a zero increase in total costs.

IG Metall is asking for a package worth 4.5 per cent to 5 per cent. Of that, just under 2 percentage points should go towards higher wages, and the rest towards new jobs.

Even though the two sides agree that actual wages should only rise in line with inflation, they are still almost 5 per cent apart.

Employers reject not just the size of the total claim, but specifically the demand that they create more mobs. The employers' federations argue that jobs are a matter for individual companies and not for federations.

They also say that the best way to increase employment is to reduce the wage cost burden on German industry. This year, the industry lost around 130,000 jobs, many of which were lost due to investments by German companies abroad.

Tied up with this package is the question of sick pay. On October 1, a new law came into effect to reduce minimum statutory sick pay from 100 per cent of wages to 80 per cent.

The issue has resurfaced in the wage talks, and neither side seems ready to compromise.

Sick pay adds another layer of complexity to what is already one of the biggest and most contentious rounds in a long time.

Other contentious issue are holiday and Christmas bonuses, payments which employees received on top of their ordinary wages on the basis of a negotiated formula.

The employers say it makes no sense for employees to earn more money when they are on holiday than when they are not. Among employees, who have been receiving bonus payments for decades, the proposed change is highly unpopular.

The negotiations are expected to last for several weeks. Given the high stakes, neither side is ready to back down on any of the outstanding issues without at least appearing to have put up a fight.

But despite the apparent difficulties, Gesamtmetall and IG Metall in the past always succeeded in confounding the numerous sceptics of Germany's system of regional wage negotiations. The system has proved surprisingly resilient, largely because the two sides are skilled gamblers with a finely-tuned sense of when to push ahead and when to pull back. But not many people are betting that their luck will hold for ever.

■ **Construction:** by Sheila Jones

Life in the market yet

There are signs the recession may not be as deep, or as long, as first thought

Prospects for the construction industry are good, bad or indifferent depending on who you ask and where you are.

After its deepest recession in post-war history, the industry is wary about saying the worst is over. But there are signs the recession may not be as deep, or as long, as economists first thought. Fewer people now talk of a building crisis.

Construction activity this year is expected to decline by up to 6 per cent, the first fall since the country unified in 1990. More than 6,000 construction companies are expected to go bankrupt. Both employers and unions believe that 100,000 jobs will go this year, and more next year, adding to the 200,000 German construction workers already out of work.

Unification six years ago this month brought with it explosive growth in the industry, particularly in the house-building sector. More than 2m housing completions were recorded between 1990 and 1994 when the boom peaked. Construction activity overall, already enjoying an upturn, soared into double-digit growth.

The industry's development differs sharply between east and west and between building sectors. In eastern Germany, where public and private investment went into building a modern capital stock "virtually from scratch" after unification, construction has become increasingly important in overall economic activity, says the Bundesbank in its latest analysis of the sector. By last year, construction accounted for 17 per cent of eastern Germany's gross domestic product, against 5 per cent in the west. The Bank points out that the building needs of eastern Germany have been much greater than in the west, where the infrastructure is intact, and the housing stock relatively modern.

House-building in western Germany started to rise sharply in the mid-1980s to accommodate an influx of immigrants, mainly from eastern Europe, followed by an inflow of east Germans from the former German Democratic Republic. The great majority of housing completions in the 1980s and 1990s have been in the west. In the east, new house-building rose sharply after unification, helped by special government measures to encourage the market, and much activity has focused on rebuilding housing stock.

Residential building accounts for about half of all building investment in the west. "Given its great weight, the trend in this segment is a major determinant of overall construction activity," says the Bundesbank. "The current weakening of demand is part of a longer-term undulating pattern of constantly alternating phases of expansion and slowdown." By 1994, the housing market in western Germany appeared to be all but saturated and the construction boom turned quickly into recession. Driven by post-unification activity, construction overall in eastern Germany is expected to peak only this year.

Along with the housing market, commercial and industrial construction rose sharply in western Germany from the mid-1980s and during the unification boom. But investment in industrial construction peaked in 1992, and failed to pick up after the 1993 economic recession. The supply of commercial properties increasingly outstripped demand and the number of vacancies rose while rents declined. Public spending on construction in the west, including road-building and civil engineering, also tailed off in 1992. In the past three years, public construction investment in the west declined in absolute terms, according to the Bundesbank.

In eastern Germany, meanwhile, public spending, mainly on the infrastructure, has jumped since 1991 by an estimated 115 per cent before inflation. Commercial and industrial building, also fuelled by transfer payments from west to east, grew strongly until last year, when overall demand began to falter.

A range of factors are blamed for the decline of the industry: an inevitable slackening of demand following the boom years, overcapacity because of the rush to build after unification, high labour costs, and the dampening effects of an overall slackening of the economy. In turn, government efforts to meet the Maastricht convergence criteria are cited as contributory factors.

The decline in the industry this year is in part blamed on bad weather. Construction output in the first half of 1996 was down 14.5 per cent year-on-year after a particularly harsh winter and a steep decline in the first quarter. The industry bounced back in the second three months, with an unprecedented 11.5 per cent rise in activity over the first quarter.

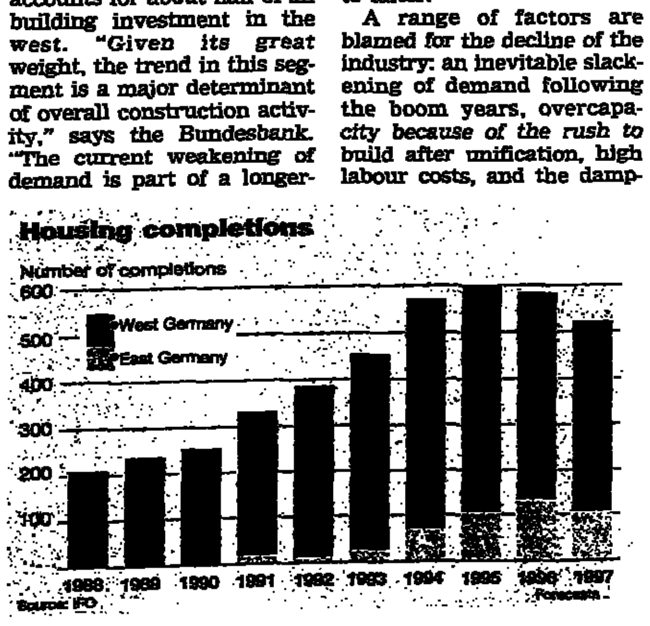
There are grounds for both optimism and pessimism, says Arend Dikkers, analyst with Salomon Brothers. Just as residential house-building led the boom, Mr Dikkers believes that housing-related demand, which has been improving since December last year, "will continue to surprise on the upside". In particular, the underlying demand for smaller homes, typically for one- and two-family apartments, is strong, says Mr Dikkers, driven partly by continuing demographic changes in the west and by real wage growth in the east. Recent changes in tax incentives for housing will be more favourable than expected and the market will continue to be one of the strongest in Europe, he believes. "The trends in leading indicators for housing construction, permits and new orders have turned into positive territory in the past few months."

At the same time, activity in the commercial and industrial sectors will stay on a downward trend in the coming months. "Typically late in the economic cycle, commercial and industrial spending need general economic recovery to see a pick up," says Mr Dikkers. Construction companies geared to the housing market, such as those in building materials, look well placed in a housing recovery. Many labour-intensive contractors and builders, more dependant on public and industrial spending, will continue to languish.

In the meantime, employer federations are urging the industry to modernise, to lift skills and to move into markets beyond their borders. Karl Robl, director of the Federation for German Construction Trades, believes the government has to do more to help bring down labour costs to compete with cheap foreign labour – already, employers and unions are fighting over a reduction in workers' sick pay entitlement. Mr Robl describes the move as "a very important step". And the unions are campaigning for a national minimum wage to level the playing field with foreign workers – of which there are 300,000 in Germany – although employers are resisting.

Mr Robl is among those predicting overall recovery in the industry by 1998, "but not before". He fears as many as 200,000 more jobs will be lost in the next three to five years, and more companies will close.

But if the unification boom was shorter than the industry had hoped, there is life in the market yet, says Mr Dikkers.



■ **Biotechnology:** by Sarah Althaus

Making up lost ground

Nowhere is the change in biotech's image and fortunes more pronounced than in Germany

After sleeping through much of the global biotechnology revolution of the last decade, Germany finally appears to have woken up. Government support, increasing venture capital activity and greater entrepreneurial enthusiasm have helped shake the sector into action.

Furthermore, as the country battles with 10 per cent unemployment, public opposition to many areas of biotech appears to be waning. Germany, which employs about 40,000 of Europe's 184,000 biotech workforce, is anxious not to miss out on the job and economic growth opportunities resulting from what is expected to be a multi-billion dollar market by 2000.

"Nowhere is the change in biotech's image and fortunes more pronounced than in Germany", Ernst & Young comments in its third annual report on the industry.

Germany has a lot of ground to recover: while several of the big chemical groups, such as Bayer and Hoechst, have biotech activities, there are only about 80 companies involved solely in biotech, compared with 1,300 in the US. The UK has more biotech companies than Germany and France combined. But Germany has not bowed out of the race.

The country's entrepreneurial sector is developing rapidly. In July, Qiagen, a small biotech specialist, became the first German company to list on Nasdaq, the computerised US stock exchange which specialises in high-tech companies. Morphosys, a Munich-based genetic drugs group set up in 1992, plans a listing within the next 12 months.

A string of small research companies has also been set up over the past few years, mainly in the gene therapy sector. Recent newcomers included MediGene, a Munich-based company which is researching drugs for cancer and heart disease, and Cellgenix Technologie Transfer, a gene therapy company based in Freiburg. Ernst & Young says Germany now has more gene therapeutic companies than any other European country.

Most of Germany's biotech companies employ fewer than 50 and have yet to reach profitability. However, they are busily negotiating licensing deals and alliances at home and abroad, latching on to the trend among cost-conscious international drugs groups to put out more research to specialised companies.

Simon Moroney, chief executive of Morphosys, says all his company's money goes into research and development at the moment but that Morphosys expects to reach "cash neutrality in the medium term". He says Morphosys has a licensing agreement with Boehringer Mannheim, the German drugs group, and is close to a "substantial therapeutically-oriented deal" with a big US chemical concern.

Germany's big chemical and pharmaceutical groups have also been active over the last year. Indeed, AgrEvo, the agro-chemicals group owned by Schering, the German drugs group, and Hoechst, recently bought a 75 per cent stake in Plant Genetic Systems, a small genetic research company based in Amsterdam. The $550m price tag for the lossmaking group was a staggering 135 times turnover. In addition, AgrEvo spent an undisclosed amount last month on a 20 per cent stake in a tiny plant research concern, Plant Tec, recently set up in Berlin.

AgrEvo's moves are an important show of confidence for plant biotechnology, a sector still fiercely opposed by environmentalists.

"Activists seem to have directed all their energies away from other areas of biotech research towards genetically modified plants and foods", says Walter Schmutzler, head of AgrEvo's field experiments in Germany.

Germany has only 38 field experiments – compared with about 3,000 in the US – and 14 of these have been destroyed by enviromentalists.

Mr Schmutzler says activists are becoming increasingly efficient at organising country-wide protests by using methods such as the Internet to spread details of the timing and location of new field experiments. But he remains defiant: "We will find a way for plant technology in Germany."

Meanwhile, public acceptance of other areas of biotech is increasing. Ernst & Young comments that in Germany "the risk-benefit balance is swinging towards acceptance of the huge potential biotech has to offer cures for life-threatening and incurable diseases".

Jozef Schell, a director of the Max-Planck-Institute for plant research in Cologne, says: "Health is closer to people's hearts than agriculture, so it's clear that the former should be a more readily accepted area of biotech among the public."

In addition to the improvement in the public image of the overall sector, the German biotech drive is also being fuelled by increased government support. "Our aim is to make Germany the number one in European biotechnology by 2000", says Jürgen Rüttgers, research minister. Ernst & Young notes that research and development spending on biotech accounts, at Ecu1.45bn, for about 3.5 per cent of Germany's total R&D investment.

Changes last year in the German genetic technology law have helped speed approvals for new products, and through its "BioRegio" competition, the federal government is offering incentives to regions with the best biotech infrastructure and investment ideas. The three BioRegio winners, to be announced in November, will receive up to DM50m each to invest in the industry.

So far, the southern state of Bavaria appears to be making the strongest commitment to biotech, although North Rhine-Westphalia, Baden-Württemberg and Berlin have also been promoting the sector strongly.

Over the last year, Bavaria has invested DM28m in a biotech centre near Munich and has established a risk financing fund, Bayern Kapital, which plans to match on a one-for-one basis money invested by venture capitalists in the sector.

"The infrastructure is in place in Bavaria...the sheer sums of money being put up here put other. [German] regions somewhat in the shade", Mr Moroney says.

Increased venture capital activity is also providing an impulse in the industry. However, there are still only a few venture capital companies in Germany with a strong biotech interest. These include Atlas Venture, the Dutch-owned group, Techno Venture Management in Munich, and the Stuttgart-based Technostart.

The lack of local exit possibilities is the main obstacle for venture capitalists. Hopes are therefore being pinned on Easdaq, the pan-European stock market which has just opened, and the "Neuer Markt", the new small company market planned by Deutsche Börse, which runs the Frankfurt stock and futures exchanges.

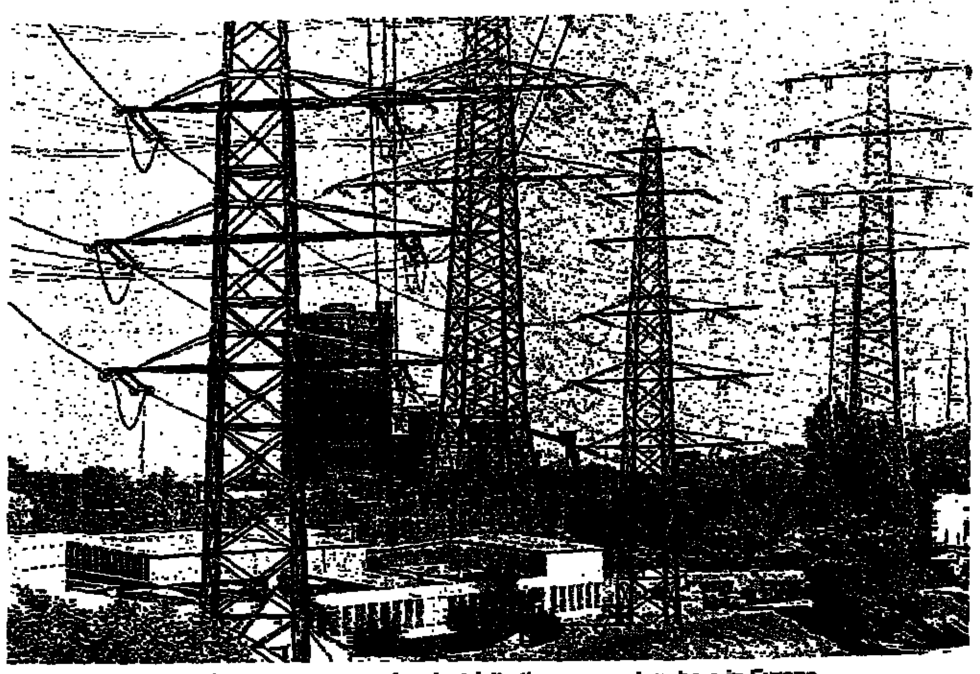
"There's not a lot more that can be done now to improve conditions for venture capitalists: what we need now is a few more success stories for biotech companies and then they will see they have exit opportunities," says Mr Moroney. One such success story was the listing in June by Genset on the Nouveau Marche, the French small company exchange, and Nasdaq, he says.

Experts say Germany is unlikely to overtake the UK in this decade as the leader in European biotech, but the gap is certainly closing. "It's not a question of whether it's too late to catch up, we won't allow it to be. Once we Germans get started, we're difficult to stop", says Peter Stadler, head of biotech development at Bayer.

■ **Energy:** by Sheila Jones

High costs hinder industry

Pressure from the manufacturing sector is forcing the government to act



Germany's big industrial users pay more for electricity than users elsewhere in Europe

Suppliers in Germany's electricity industry have grown prosperous in a highly regulated market. Cosy relationships between buyers and sellers have underpinned strong growth in revenues. But the market is changing.

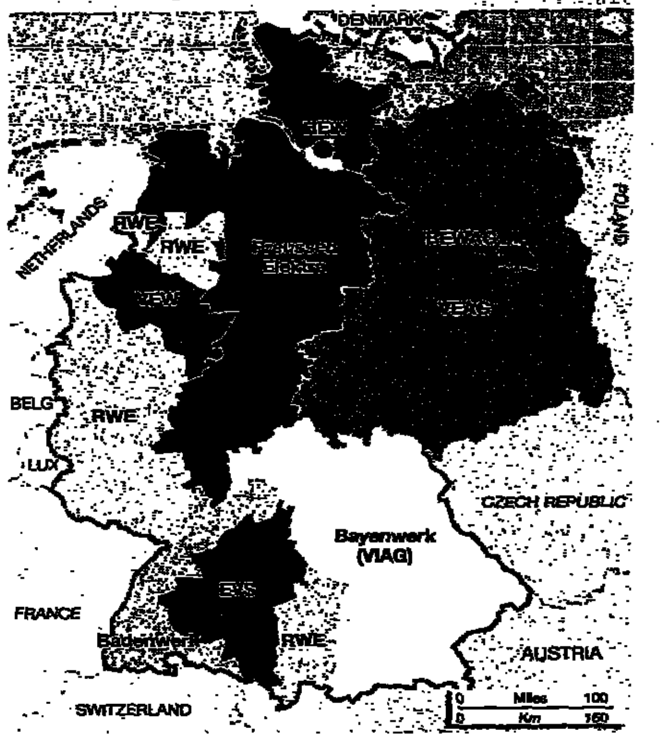
For years, German industry has complained that its competitive position is being hampered by excessively high energy costs. Energy-intensive sectors, such as the chemical industry, have been especially vocal, along with small- and medium-sized companies. Lacking influence to negotiate big discounts, smaller companies pay up to 50 per cent more for electricity in Germany than in the UK and in France. Even Germany's big industrial users, which negotiate the best prices, are paying substantially more for electricity than elsewhere in Europe.

Other factors have contributed to high energy costs. These include levies on electricity to subsidise the domestic coal industry, and political opposition in some German states to the use of nuclear energy which has left newly-built plant idle.

Driven by pressure from industry and by an ideological commitment to liberalisation, the government is beginning to act. The coal levy on electricity has ended, and legislation is being prepared to open the market in gas and electricity. Germany has been a main driver in the European Union to deregulate across Europe. Prices are falling.

When the "coal penny" levy was removed in January, electricity prices for west German industrial users fell by 12.5 per cent overnight, according to estimates from BZW Deutsche. The levy had forced the utilities to buy a certain amount of domestically-produced hard coal at well above world market prices.

Utilities: regional markets



Even before the removal of the levy, electricity prices had started to fall in a relatively flat market. According to BZW Deutsche, prices for industrial customers have fallen by a third in real terms in the past 10 years, driven mainly by the negotiating power of bigger customers. But prices remain high compared to other countries.

The German energy industry is extremely fragmented. It is dominated by nine regional utilities, which generate about 60 per cent of the country's electricity. The big operators, among them RWE, VEAG, Bayernwerk and PreussenElektra, generate, supply and distribute electricity, and they control the national grid. Hundreds of municipal and local utilities, owned jointly by local authorities and the big nine operators, account for 30 per cent of generation. The rest is produced by the big industrial users which have their own power plants.

Concession agreements between the dominant utilities allow each the sole right to service a particular region. In addition, municipal and city governments are allowed, under an exemption in the anti-cartel law, to agree with the utilities exclusive long-term supply contracts – typically 20 years – for a fee. Access fees – an estimated DM6bn is paid annually – represent an important source of income for the municipalities.

The pressure for change has escalated. The German cartel authorities are being more aggressive in challenging territorial monopolies. They recently ruled against a 20-year exclusive supply contract between RWE and the town of Nordhorn. RWE is challenging the ruling under national regulations and in Brussels.

The biggest industrial customers are increasingly commissioning their own power plants to secure lower prices. The utilities, anxious to hold on to their customers, are responding with discounts. Stadwerke Mainz, the city-owned monopoly, recently secured a contract to build a power plant for Adam Opel, which builds cars near the city. RWE has agreed terms to build a plant for one of its biggest customers, BASF.

In all, there are about 900 electricity utilities, many of which are likely to be swallowed up in the competitive environment of a newly-liberalised market.

The government's draft energy bill is more wide-ranging than the EU legislation, aiming for complete liberalisation. It gives third parties access to the national grid, allowing consumers and distributors to buy from any supplier. It outlaws territorial monopoly agreements between the utilities and it strips away the legal protection that allows exclusive supply agreements, although local authorities will still be allowed to charge non-exclusive commission fees.

Günter Rexrodt, the economics minister, had hoped the legislation would be in place by the end of this year, although that timetable is slipping because of opposition particularly from municipal governments. Implementation might now coincide with the start of the EU's staged timetable for liberalisation.

Germany, with the UK and the Netherlands, pushed hard in EU talks in June for legislation to open the EU energy market to full competition. The talks ended in a compromise that opens the market in stages beginning in January next year. About 23 per cent of national markets must be open by 1999, 27 per cent by 2000, and 33 per cent by 2003.

Because its own legislation opens the energy market fully, Germany insisted on a clause that allows foreign competitors into other markets only where there is equal access to the competitor's market. In particular, Bonn was concerned that French state producer Electricité de France should not be allowed to enter its market while German companies had limited access to France. The reciprocity clause will exist at least until 2006.

"A fully open market would, of course, have been the best solution," says a Bonn official. "Then we would not have needed the protection clause. But at least we have made a decision, and we have set down a clear definition of the levels of liberalisation required."

As national and EU liberalisation take hold, electricity prices for industrial users in Germany will fall by as much as 20 per cent, says Lynn Reinhardt, an analyst with BZW Deutsche. But household prices, which already compare favourably within Europe, are likely to stay around present levels.

"Industry will be the greatest beneficiary. There will be a massive consolidation in the industry – it's already happening – and prices will come down for industrial customers," says Ms Reinhardt.

The big utilities will cut costs, shed labour and trim back the "extremely high degree" of operating quality to gear up to the competition, she says. They are also likely to sweep up scores of the smaller utilities. "The smaller companies don't have the economies of scale and they will suffer."

For the dominant utilities, the reserves built up after years in a protected market will cushion the early effects of falling prices. The nimblest utilities look set to gain most.

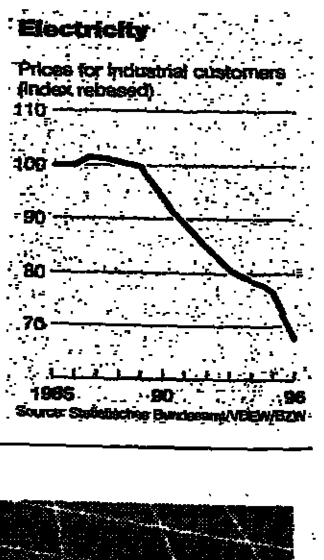
Much will depend on the aggressiveness with which Germany's regional monopolies, and its foreign competitors, tackle the country's newly-opened markets. France, for example, looks well placed on Germany's border to sell its relatively low-cost, subsidised nuclear power, into Germany.

The future shape of the market will also depend on the way national and EU authorities police the new regime.

Germany wants an open market, but it also wants a level playing field and will continue to push hard for other countries to open their markets, too.

Electricity

Prices for industrial customers (index rebased)



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FT

FINANCIAL TIMES

Dear Reader,

The Financial Times publishes country, industry and financial surveys (ie. separate editorial features) several times per week. In order to help ensure that these meet your needs as a reader, we have commissioned Framework, an independent market research company, to conduct a research project.

Please could you help us by taking a few minutes to complete this questionnaire, fold, seal and return it to the research company using the International Business Reply Service - you do not need a stamp or an envelope.

The research results will be used by our editorial and marketing staff. Your reply will be treated in the strictest confidence as guaranteed by the code of conduct of ESOMAR (the European Society for Opinion and Marketing Research). We do not need you to provide your name, address or company details.

If you have any further comments about this, or other FT surveys, please do not hesitate to write to me directly.

Thank you for your help.

Yours sincerely,

Rhys David

RHYS DAVID
SURVEYS EDITOR

YOUR READERSHIP OF THE FINANCIAL TIMES

☐☐☐☐☐[3] (1-6)

1. How often do you usually read or look at:
a. Monday to Friday issues of the Financial Times?
b. Saturday issues of the Financial Times?

	Monday to Friday (7)	Saturday (8)
Very frequently - at least 4 issues out of 5	☐1	☐1
Quite often - 2 or 3 issues out of 5	☐2	☐2
Less often	☐3	☐3
Never	☐4	☐4

2. Where do you usually read the Financial Times? (please tick all that apply)

	Monday to Friday (9)	Saturday (10)
At work	☐1	☐1
At home	☐2	☐2
While travelling	☐3	☐3
Elsewhere	☐4	☐4

3. The Financial Times publishes surveys most days each week, either within the main body of the newspaper, or as separate sections. On average, assuming five FT surveys are published per week, how many do you read or look at (either on the day they are published or at a later date)?

none ☐ less than 1 ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ (11)

YOUR READERSHIP OF THIS FT SURVEY

The following questions relate to this South Africa survey.

4. How much of the South Africa survey did you read/do you expect to have read once you have finished with it? (12)

- All ☐1
- Almost all ☐2
- About half ☐3
- Less than half ☐4
- Did not read it - skip to Q11 ☐5

5. Apart from yourself, how many other people will read your copy of this survey? (13)

None ☐ 1 ☐ 2 ☐ 3-4 ☐ 5-9 ☐ 10+ ☐ don't know ☐

6a. What will you do with this survey once you have finished reading it? (14)

- Keep the copy or selected pages for further reference ☐1
- Pass it on to a colleague ☐2
- Throw it away - skip to Q7 ☐3

6b. If this survey is kept for future reference, where will it be kept? (15)

- In the company library/another central location ☐1
- In your own office ☐2
- In another office/department ☐3
- At home ☐4
- Elsewhere ☐5

7. A number of statements are written below which might apply to the South Africa survey. Please indicate how strongly you agree or disagree with each statement.

	Agree strongly 1	Agree slightly 2	Disagree slightly 3	Disagree strongly 4	
It is well written	☐	☐	☐	☐	(16)
It contains information which is new to me	☐	☐	☐	☐	(17)
It is useful to me in my work	☐	☐	☐	☐	(18)
It is well laid out and presented	☐	☐	☐	☐	(19)
It is authoritative and credible	☐	☐	☐	☐	(20)
It is independent and unbiased	☐	☐	☐	☐	(21)
It is up to date	☐	☐	☐	☐	(22)

8. Overall, how would you rate the South Africa survey? (23)

Excellent ☐ 1 Very Good ☐ 2 Fair ☐ 3 Poor ☐ 4

9. Are there any other comments you have about this survey? (please write in)

.... (24)
.... (25)
.... (26)

10. Which, if any, of the advertisers listed below do you remember seeing in this survey? (27)

- Anglo American Corporation ☐1
- ABSA Bank ☐2
- Standard Bank ☐3
- Hambros Bank Limited ☐4
- Transnet Limited ☐5
- SAA (South African Airways) ☐6
- South Africa Reserve Bank ☐7
- Forbes Financial ☐8
- Barlow Limited ☐9

ABOUT FT SURVEYS IN GENERAL

11a. Which, if any, of the following surveys published recently by the Financial Times did you read or look at? (28)

- Power in Asia ☐1
- Europe's Most Respected Companies ☐2
- International Telecommunications ☐3
- Venture & Development Capital ☐4
- Chemicals ☐5
- UK Rail Privatisation ☐6
- World Economy/IMF ☐7
- None of these ☐8

11b. Which, if any, of the Africa surveys published earlier this year, did you read or look at? (29)

- Uganda (April) ☐1
- Banking & Investing in Africa (May) ☐2
- Ghana (July) ☐3
- None of these ☐4

12. A number of statements are written below which might apply, in general, to the range of surveys produced by the Financial Times. Please indicate how strongly you agree or disagree with each one.

	Agree strongly 1	Agree slightly 2	Disagree slightly 3	Disagree strongly 4	
FT surveys are well written	☐	☐	☐	☐	(30)
They are useful to me in my work	☐	☐	☐	☐	(31)
They cover a wide range of topics	☐	☐	☐	☐	(32)
They provide information I cannot find elsewhere/ would not see otherwise	☐	☐	☐	☐	(33)
They are better than those produced by other publications	☐	☐	☐	☐	(34)
The writing is independent and unbiased	☐	☐	☐	☐	(35)
They help me to keep informed about new trends and developments	☐	☐	☐	☐	(36)
They are accurate and up to date	☐	☐	☐	☐	(37)

13. In general, how would you rate FT surveys? (38)

Excellent ☐ 1 Very Good ☐ 2 Fair ☐ 3 Poor ☐ 4

14. In which subjects or geographical areas are you particularly interested? (please include any which are not currently covered by the Financial Times)

.... (39)
.... (40)
.... (41)

15. In which, if any, of the following ways do you use FT surveys? (please tick all that apply) (42)

- As a briefing before visiting the country or region featured ☐1
- As a part of your background research on a particular project ☐2
- To keep you up to date with a particular industry, country or region ☐3
- To incorporate into presentations, reports or other documents ☐4
- To show clients, suppliers or other contacts ☐5
- To keep you generally informed ☐6
- In other ways (please write in) ☐7

16. How do you generally find out about forthcoming FT surveys? (43)

- I look at the Guide to the Week (in Monday's paper) ☐1
- I see the advance notices in the paper ☐2
- I receive an advance topic list from the Financial Times ☐3
- I just come across them on the day of publication ☐4
- Editorial contact ☐5
- Advertising contact ☐6
- PR contact ☐7
- Other ☐8

17. In which of the following ways have you obtained copies of FT surveys? (please tick all that apply) (44)

- In your own or someone else's copy of the paper ☐1
- Had it passed on to you by a colleague ☐2
- In a library, archive or similar place ☐3
- Via www.FT.com (the Financial Times on the Internet) ☐4
- On computer disc ☐5
- On microfiche ☐6
- Via FT Profile ☐7
- Purchased a back copy from the Financial Times ☐8

18. Have you ever contacted a company or organisation as a result of seeing an article or advertisement in an FT survey? (45)

- Yes - after reading an advertisement ☐1
- Yes - after reading an article ☐2
- No ☐3

19. If FT surveys were available electronically, in which of the following formats would you be interested? (46)

Computer diskette ☐ 1 CD Rom ☐ 2 Via the Internet ☐ 3 None of these ☐ 4

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■ **Media:** by Frederick Stüdemann

Television giants battle for viewers

Bertelsmann and Kirch are busy positioning for the new digital pay-TV market

Within the German media, all eyes this year have been on television as two of the country's big operators, Bertelsmann and the Munich-based KirchGroup, have battled for control over the coming market for digital pay-TV.

The two companies, which between them already control much of the commercial free-to-air television sector, have spent much of the year drifting in and out of strategic alliances, investing heavily in the technology needed for digital television and making several Hollywood studios considerably richer through expensive programme rights deals.

The driving force behind all this has been the assumption that within the next five to 10 years Germany's 32m television households will develop an expensive taste for digitally-transmitted pay-TV channels devoted to

Leo Kirch: investing heavily in technology for digital TV

sports, films, documentary and life-style programmes.

Digital transmission allows for many, many more channels to be offered to viewers, who can tailor-make their own "bouquet" of programmes, as well as some interactive features, such as access to film libraries and choice over the start of programme times. Analysts forecast that in 2005 there could be nearly 6m digital households in Germany, generating digital pay-TV revenues of around DM2bn ($1.3bn) out of total television market sales of DM15bn.

So far the result appears to be victory for Kirch. Having spent an estimated DM9.3bn on programming, Kirch has secured nearly all the digital pay-TV rights to Hollywood output and thereby effectively starved Bertelsmann out of the market. With its digital pay-TV channel DF-1, launched in July and co-owned with British Sky Broadcasting, Kirch got to the market first.

Bertelsmann, meanwhile, saw its plans for a grand alliance of European broadcasters collapse when BSkyB pulled out of a joint-venture with the German company and Canal Plus of France. Relations between Bertelsmann and Canal Plus were subsequently strained when Bertelsmann announced the merger of its television and film subsidiary Ufa with CLT of Luxembourg, a competitor to Canal Plus in France.

Canal Plus hit back in September with the surprise announcement that it was merging with NetHold, a pan-European broadcaster. The merger not only made Canal Plus, whose digital pay-TV channel in France already has 100,000 subscribers, Europe's biggest pay-TV operator, but also gave it control over the two decoder systems, Seca and Irdeto, needed for pay-TV.

Seca is a joint-venture between Canal Plus and Bertelsmann; Irdeto is a NetHold subsidiary. In Germany, Kirch uses Irdeto, while Bertelsmann had committed itself to Seca.

Partly as a consequence of this, Bertelsmann also then had to contend with the unravelling of MMBG, a consortium it had helped establish to agree on a technological standard for digital pay-TV. Last month, Deutsche Telekom, which will be partially privatised next month, announced it was pulling out of MMBG, in which it was the main shareholder, to concentrate on marketing its own cable television network. The move prompted other MMBG shareholders, who include Canal Plus, the Daimler Benz subsidiary Debis and Germany's public sector broadcasting networks, to announce their own probable exit from the venture.

Left with little room for manoeuvre, Bertelsmann announced it was postponing its digital pay-TV activities, which were to be based around a new network called Club RTL. Instead, Bertelsmann intends to concentrate on its free-TV interests and its stake in Premiere, an analogue subscription channel which is jointly owned with Canal Plus and Kirch.

It is not only Bertelsmann which has gone cold on digital pay-TV. Pro Sieben, Germany's third largest commercial network and in which Mr Kirch's son Thomas has a stake, has also scrapped its digital pay-TV plans.

While Bertelsmann's move may have been somewhat forced, it also reflects growing caution about the true rewards of digital pay-TV. Michael Dornemann, head of Bertelsmann's entertainment division, says he doubts that German households are so willing to pay out more for television. "If you add up all the costs, the television licence fee, the cable subscription charges, the price of a decoder box and then the charges for pay-TV services, you quickly arrive at a monthly figure of around $100", he says. "That's a lot to ask."

Evidence appears to support this view. With around 30 free-TV channels currently available on cable, the preferred method of delivery for around half of all television households, German viewers are already spoilt for choice. Surveys show great reluctance to spend more money on television.

Premiere has also showed how difficult it is to entice viewers to pay for programming. After five years and DM700m of investment, the channel, which now has 1.3m subscribers, is just about breaking even.

For Kirch, the problem is that it does not have that much time. According to a study by Morgan Stanley, a further DM1.26bn will need to be invested in DF-1 before it breaks even. Industry observers reckon that the company, which is notoriously secretive about giving out figures, will need 2m subscribers on DF-1 to make its investment pay. So far it has 5,000, and its goal of attracting 200,000 by the end of the year looks increasingly unrealistic. By comparison, BSkyB has programming commitments of $3.3bn and more than 5m subscribers.

But for Kirch the case of BSkyB in Britain is instructive. There, the start-up costs for the network, then called Sky Television, were horrendous and its losses helped push the parent company, News Corporation, to the brink of bankruptcy. Yet once the threat from a rival satellite network, BSB, was eradicated through a merger, Sky gradually established itself as a highly profitable business.

Translated to Germany, this presents the scenario of Kirch bringing DF-1 closer to Premiere. This is certainly what Bertelsmann is pressing for in its continuing talks with Kirch. On paper it would be a logical move. Both are already shareholders in Premiere, which has the subscribers and could be gradually evolved into a digital network.

One problem, however, is what to do with BSkyB, as the German cartel office has said it would recommend that the European Commission block any attempt to bring the UK company into Premiere.

A further uncertainty is the position of Deutsche Telekom. The company clearly intends to capitalise on its cable network, which is the key distribution means for broadcasters.

■ **Corporate governance:** by Andrew Fisher

Two-tier system under scrutiny

The government has put forward proposals, but these can hardly be called radical

The normally smooth functioning of the German economy – with growth rates and a record of stability envied the world over – is often interrupted by corporate scandals and disasters which call into question the way German industry is managed.

Long regarded as a model to be emulated rather than criticised, the two-tier board system of executives and non-executives has come under increasing scrutiny at home and abroad as companies struggle to meet fierce world-wide competitive pressures. For while the combination of management (Vorstand) and supervisory (Aufsichtsrat) boards has contributed considerably to post-war prosperity, some executives now regard it as more of a hindrance.

In the past, corporate upsets could mostly be sorted out behind closed doors through Germany's time-honoured consensus method. But in today's more open business climate, this is increasingly hard to do. In fact, part of the problem may be that the very attempt to sort matters out quietly and away from the public eye has simply delayed crises and increased their eventual impact.

Among problem companies that have hit the headlines recently are Klöckner-Humboldt-Deutz, Metallgesellschaft and Bremer Vulkan. The three cases are very different but each contains some mixture of exaggerated ambition, managerial incompetence, the hiding of crucial facts and inadequate supervision.

The government has proposed corrections, but these can hardly be called radical. The justice ministry wants supervisory boards to be strengthened by restricting the number of mandates a person can hold. It also wants to limit the size of supervisory boards – containing management and labour representatives under Germany's system of co-determination – and give them rather than the management boards the responsibility for appointing and overseeing auditors.

Understandably, the government is not keen to tamper too much with the two-tier board system which has proved its worth. In cases where criminal activity had occurred, experts at the ministry feel legal changes to stiffen the workings of supervisory boards would be of little use. They believe instead that non-executives should have more time to do their work effectively – one obvious way being to cut down on individual mandates – and be drawn from a wider circle.

This touches on the role of the banks, which provide many heads and members of supervisory boards. In two of the above cases, Metallgesellschaft (the metals, chemicals and trading group) and KHD (engineering), it was Deutsche Bank, Germany's biggest, which came in for the brunt of criticism. Both cases have cost the bank money and time, as well as denting its image. But other big banks such as Commerzbank (involved as a lender with Bremer Vulkan, the bankrupt shipyard) and Dresdner Bank (also connected with Metallgesellschaft) have been drawn into such crises, too.

Not surprisingly, banks are keen to cut down their exposure to such corporate horror stories. Deutsche Bank said last year it was no longer taking on any new supervisory board chairmanships since many companies needed non-executive chairmen with wide-ranging industrial rather than financial experience.

Linked with the discussion of corporate governance is the growing adoption among German executives of a commitment to shareholder value, although this concept tends to be viewed differently in Germany than elsewhere. As companies spread into more markets and become more vulnerable to competition – and their increasingly international shareholders demand better returns – greater attention is being paid to the needs of those who own the equity.

More and more companies, including banks and insurance companies, are stating publicly the rates of return on equity they aim to produce. Veba, which has long taken the notion of investor relations more seriously than many other German companies, has committed itself with some zeal to the idea of shareholder value.

Ulrich Hartmann, chairman of the energy and telecommunications group, told shareholders that this was "the guide-line of our corporate policy". However, he gave it a typically German twist by linking it to the long-term well-being of both shareholders and employees through the need to achieve a steady increase in the company's value. This involved not just cost-cutting but also strategy for the future.

This may be called having it both ways – the Anglo-Saxon definition of shareholder value being much more hard-nosed than the more consensus-oriented German view – by putting the interests of shareholders and employees in the same category. Ultimately, both categories of "stake-holder" have the same desire: the health of the company. But the means to that end can be argued about incessantly.

Mr Hartmann said most of Veba's institutional shareholders, including those in Britain and the US, did not just want to earn a quick D-Mark but invested for the long term. What the big institutions sought was a steady increase in capital value.

German and Anglo-Saxon attitudes to corporate governance can thus be said to be coalescing.

Foreign policy: by Frederick Stüdemann

Global influence strengthens

The senior economic power in Europe is seeking a bigger international role

The old adage of Germany being an economic giant but a political dwarf is no longer true. Since unification in 1990 Germany has become increasingly assertive in its foreign policy.

Germany is the senior economic power within the European Union, an influential voice in central and eastern Europe and, through the United Nations where it wants a permanent seat on the Security Council, is lobbying for a bigger say in international affairs.

Another watershed was crossed last year when Germany sent Bundeswehr support troops to Bosnia as part of the international peacekeeping effort there. Now it is set to follow this up with fully-armed combat troops, the first time such forces will have been sent beyond Germany's borders since the end of the second world war. All this has come about despite long-standing reservations at home and abroad about the wisdom of sending soldiers to an area where the Wehrmacht once raged.

But while the overall transition in foreign policy may be remarkable it has also been far from smooth and is still fraught with difficulties.

The most obvious of these is that while Germany's economic might means it is now expected to play a bigger role on the international stage, by doing so it runs the risk of reviving old fears of bossiness and potential aggression.

In the immediate years after unification Germany received a sharp reminder of the difficulty of such a predicament. During the Gulf War in 1991 Germany's lacklustre involvement in the coalition against Saddam Hussein – it provided cash and sent a few support troops to Turkey – earned it a rebuke for shirking its international duties.

A year later German agitation for the recognition of Croatia and Slovenia led to accusations of accelerating the break-up of the former Yugoslavia and suggestions that Germany was returning to old alliances in the region where it had once sustained a Croatian puppet state.

Closer to home relations with the Czech Republic continue to be strained due to the restitution claims of Sudeten Germans, who were expelled from Czechoslavakia after the second world war and are now a vocal minority in the Christian Social Union, the Bavarian sister-party of Chancellor Helmut Kohl's Christian Democratic party.

History and geography have an enduring influence on the making of German foreign policy. The urge to prove that modern Germany is different from that of half a century ago is one of the underlying tenets of policy. Another is the wish to avoid the geopolitical constellations which partly made that aggression possible.

"We must – partly because of our past and partly because of our position, surrounded as we are by nine neighbours – always be aware that if we do too much we will prompt worries and concerns among our neighbours and I don't think we should do that," says President Roman Herzog.

The answer to this problem has been to embed German foreign policy in the higher plain of European, transatlantic and international policy-making. "No singular role, no going it alone" is a common refrain from the foreign ministry.

European integration, not just of the existing members of the EU but also of Germany's neighbours to the east, is at the top of Chancellor Helmut Kohl's agenda. The alternative, the chancellor has suggested, is a return to the chaos of conflicting alliances and with that the possibility of war.

But the interest in European integration is not just about removing residual fears of an overly-powerful Germany. It is also seen as the means for delivering the other main goals of German foreign policy – stability and trade.

Here Germany seems to be trying to be all things to all men as witnessed by its relations with central and eastern Europe, an increasingly bigger destination for German investment. Because Germany wants political and economic stability on its eastern borders, it wants to see countries such as Poland and the Czech Republic bound into hitherto western structures such as the European Union and Nato. At the same time and also for reasons of stability, good relations with Russia, Europe's only super-power, are vital.

Given the tensions between Russia and its erstwhile satellites in eastern Europe, reconciling the two is at times akin to doing the splits, Klaus Kinkel, the foreign minister has said. For now, Chancellor Kohl can use his good relations with President Boris Yeltsin to reassure Russia over issues such as the eastward expansion of Nato. How relations will be conducted in the future when one or both leaders are no longer in office remains to be seen.

Germany's anxiety to protect its trading interests has sometimes also created awkward moral dilemmas. Earlier this year relations with China, for which Germany is the largest European trading partner, were soured when the Bundestag, the lower house, passed a resolution condemning China's treatment of Tibet. As a result an invitation for Mr Kinkel to visit China was withdrawn. There has since been a rapprochement and Mr Kinkel has been re-invited while another invitation has been extended to President Herzog.

Another, more thorny, case has been relations with Iran which owes Germany \$8.5bn, largely in export credits. To the annoyance of the United States, which sees Iran as a supporter of international terrorism, Germany has put itself at the forefront of a European Union policy of "critical dialogue" with Tehran.

As well as worrying Germany's allies, this has also caused difficulties at home. While Tehran and Bonn engage in high-level talks, German prosecuting authorities have issued an arrest warrant for the head of the Iranian intelligence services for alleged involvement in the assassination of four Kurdish opposition leaders in Berlin in 1992.

There is further tension in the actual execution of foreign policy. Since the departure in 1992 of Hans-Dietrich Genscher from the foreign ministry, German foreign policy has been increasingly decided from the chancellery by Mr Kohl and his adviser Joachim Bitterlich.

While this may reflect a general waning of influence and prestige for foreign ministries as government leaders deal with each other on a one-to-one basis, it is also partly a matter of personalities. Helmut Kohl is now the longest-serving western head of government and has built up a network of relationships with other leaders. Mr Kinkel, a former civil servant who entered politics and ministerial office relatively late, on the other hand often cuts a cold and undiplomatic figure.

Eastern Germany: by Frederick Stüdemann

Bonn's principal policy headache

Labour in the east is more expensive than in much of the rest of the industrial world

Six years after unification eastern Germany remains the principal policy headache for the Bonn government. Despite almost DM1,000bn of public money poured into eastern Germany since 1990, the region is still blighted with grave structural weaknesses.

Over the past year there has been a marked slowdown in the eastern economy. Government forecasts put growth this year at 3 per cent, down from 5.3 per cent in 1995 and 9.9 per cent in 1994. In the first quarter of this year growth actually fell, by 1.2 per cent, though this is seen as a result of a particularly harsh and long winter which affected the construction sector, the motor of economic recovery in the east.

Unemployment in the east is 15 per cent. If those people on government sponsored make-work schemes are taken into account then the proportion of people in the east without proper jobs rises to 25 per cent.

One of the main reasons for this bleak situation is the high cost of doing business in the east. In 1995 unit labour costs in the east were 31.2 per cent higher than those in western Germany. At the same time productivity in the east stood at only 55.2 per cent of that in the west.

Despite wages averaging 72.4 per cent of those in the west, labour in eastern Germany is now more expensive than in most of the rest of the industrial world. It is certainly considerably more expensive than labour in neighbouring Poland and the Czech Republic, countries which are attracting increasing numbers of German investors keen to escape high costs at home.

A further worry is that the Mittelstand, the swathe of small and medium-sized companies which in the west has typically been seen as the creator of economic success, has been slow to establish itself in the east.

According to the German chambers of industry and commerce (DIHT) and the federation of German industry (BDI), two lobby groups which recently published a report on the Mittelstand in the east, companies in eastern Germany are hampered by inadequate equity levels, poor treatment from banks and late payment from the public sector.

A further concern was the small number of Mittelstand companies in the manufacturing sector. Of the 500,000 companies established since unification, only 14,000 are operating in the industrial sector.

These figures pinpoint one of the chief structural weaknesses of the eastern economy. According to government figures manufacturing accounts for 14 per cent of eastern German GDP, compared with 26.4 per cent in the west. This puts manufacturing below the construction sector which in the east accounts for 17.6 per cent of GDP.

The poor state of the eastern economy has prompted the government to accept that recovery in the east, to the point where it is self-sustaining, will take much longer than originally expected at the time of unification. And with that the need for public transfers to the east will remain for the foreseeable future. "We must prepare ourselves for a longer time-frame of around 15 years," says Johannes Ludewig, state secretary in the economics ministry and responsible for the eastern Länder.

But this poses an acute political problem for the government. Tightened budgets and rising unemployment across the country have dampened public support for the financing of recovery in the east. Tax-payers pay a 7.5 per cent "solidarity surcharge" on their income tax for the east. Justifying this and measures such as the make-work schemes is increasingly difficult at a time when parts of western Germany, such as Bremen and Saarland, are also blighted with high unemployment.

Furthermore, the Bonn government must not only convince its own citizens of the need to continue subsidising the east. As the recent row over subsidies to an eastern German factory of the Volkswagen car group showed, Bonn must also argue the case with the European Union.

Such grumblings have not gone unnoticed in the east where the euphoria over the possibilities offered by unification has long evaporated. "Today, on both sides we think we know the quirks of each other very well. Yet who in the west knows that two-thirds of the people here feel themselves to be second-class citizens," says Eckhardt Rehberg, leader of the CDU in the state parliament in Mecklenburg-Pommerania, one of the poorest of the eastern Länder.

As such there has been a noticeable spread of nostalgia in the east. Whether this expresses itself in the choice of consumer products or in support for the reformed communist party, the Party of Democratic Socialism (PDS), the overall effect is the same: the wish to retain a sense of regional pride in a time of great upheaval and apparent steam-rolling by the west. "Our main problem is a mental one" says Rita Süssmuth, the president of the Bundestag, the parliament, and a westerner.

Overcoming this will not be a quick process. But there are areas where the government could have moved faster. Of the many federal agencies few have made the move east even though before the second world war many, such as the highest criminal court, were actually located there.

While this all makes for a gloomy picture, it would be wrong to overlook the very real benefits unification has brought to the east. Thanks to federal subsidies eastern Germany now boasts some of Europe's most modern infrastructure. Roads, motorways and regional transport systems have been overhauled. The telecommunications network, once a laughing stock, is now state of the art.

Such improvements have done much to remove the air of "wild frontier" from the east. Driving nowadays from west to east it is increasingly difficult to spot the former border which once divided the country.

This facelift operation is most apparent in Berlin where nearly all the important real estate and infrastructure development is taking place on the eastern side of the city. It is there where the mass of new office blocks, retail developments and hotels are being built. When the government arrives from Bonn – the move is forecast for sometime around 1999 – it will spread itself largely in the centre of eastern Berlin.

Added to such concrete improvements come the benefits of no longer living under a dictatorship. In opinion polls the freedom of expression and the freedom to travel are regularly cited by easterners as the great benefits of unification.

■ Politics: by Peter Norman

A towering figure in all senses of the word

Germany's politics are not as stable as the chancellor's position suggests

For many people, German politics is Helmut Kohl. A towering figure in all senses of the word, he celebrated 14 years in office at the beginning of this month. On October 31, he will overtake the record of his model and mentor, Konrad Adenauer, to become the federal republic's longest-serving chancellor.

While Adenauer's departure from office was more or less involuntary, there is no sign of Mr Kohl going. Although he refuses to answer the question, it is generally assumed that the chancellor will lead the present coalition – comprising his own Christian Democratic Union, its Bavarian sister party, the Christian Social Union, and the liberal Free Democrat Party – into the next general election in the autumn of 1998.

Chancellor Kohl : a big man for a big job

Nowadays, the chancellor seems to spend as much time travelling the globe as worrying about problems at home. But he has yet to show those tell-tale signs of political enfeeblement that afflicted other leaders such as the late President François Mitterrand of France and Baroness Thatcher, the former UK prime minister, after about 10 years in office. His triumph of unifying Germany between 1989 and 1990 gave Mr Kohl's chancellorship a new lease of life after strong criticism from within the CDU that was weakening his hold on power.

Mr Kohl will have no such worries at the CDU's party congress which opens today in Hanover. And yet it would be wrong to conclude that German politics are as stable as the chancellor's position suggests. Although it has proved remarkably disciplined in the two years since the last general election, Mr Kohl's coalition has only a small majority in the Bundestag, the lower house of parliament. The Bundesrat, the second chamber representing the federal states, or Länder, is controlled by governments headed by the opposition Social Democratic Party, a fact that makes the legislative process slow and complex and which forces the coalition to compromise when seeking to pass laws that affect the states.

The strong opinion poll lead enjoyed by the ruling coalition in its first year after the 1994 election has been eroded by rising unemployment and unpopular government measures to cut public spending and trim welfare entitlements. Recent polls suggest that a "Red-Green" coalition of the SPD and the environmental Green party would win nearly 50 per cent of the popular vote and so have a majority of seats in the Bundestag. Support for the CDU/CSU has been fluctuating around 40 per cent, while the FDP backing is running at around 5 per cent, the lower limit for a party normally to gain entry into the Bundestag. Symptomatic of the problems of assimilating eastern Germany is the 5 per cent support for the Party of Democratic Socialism, the successor to the former east German communist party.

The government has so far shown no signs of worry about the modest resurgence of the opposition. Mid-term unpopularity is common enough in democracies and there is a lengthy period until the general election and next test of the popular mood, the elections for the state parliament in Lower Saxony early in 1998.

But the opposition has recovered despite substantial problems of its own. The SPD, the main opposition party, has faced a difficult task rebuilding its morale and profile after last November's spectacular coup at the party congress in Mannheim when Oskar Lafontaine, the mercurial prime minister of the Saar, replaced Rudolf Scharping, the leader of the SPD MPs in the Bundestag, as party leader.

Mr Lafontaine, who proclaimed himself the leader of a "leftist" party, was swept into power by a delegates' vote on a wave of emotion after a dazzling display of rhetoric. But it quickly became clear that he had no ready programme for rebuilding the party after his improvised power grab.

The SPD's weaknesses were exposed in important state elections in March in Baden-Württemberg, Schleswig-Holstein and Rhineland-Palatinate when the party broadcast widely different messages to the voters and lost ground in all three contests. A populist campaign in Baden-Württemberg against European monetary union and the immigration of ethnic Germans from former Soviet republics badly misfired, exposing internal party divisions and delivering the SPD's worst-ever result in the state.

The March elections also confirmed the growing electoral appeal of the environmental Green party and marked a sharp recovery of the FDP, which was weakened by its own internal quarrels in late 1995 and had appeared to be heading for oblivion.

The FDP recovered after re-inventing itself as the party of low taxation, deregulation and less bureaucracy. This platform is the brainchild of Guido Westerwelle, the party's secretary-general, who is pushing it hard in the Bonn coalition. It was especially successful in Baden Württemberg where Walter Döring, the state's FDP leader, lifted the party's share of the vote to 9.6 per cent from 5.9 per cent previously and secured a role for the FDP as junior partner in a coalition government with the CDU.

In its analysis of the March polls, the Infas political research institute argued that the Green success reflected uncertainty in the SPD about its future economic and social policy and its failure to modernise and attract younger voters to offset the erosion of its traditional industrial, working class base. Since then, Mr Kohl's government has begun in earnest to cut public spending and curb the welfare state, giving the SPD a clear target for attack. But it is striking that the strongest resistance to government policies has come from the trade union movement while the most articulate opponent of Mr Kohl is the parliamentary leader of the Greens, Joschka Fischer.

Mr Fischer, a brilliant debater, is the only opposition leader able to wound Mr Kohl in the Bundestag. But he has problems. Last month, his re-election as floor leader of the Greens was supported by only 32 of the party's 49 MPs, reflecting the suspicion that his drive to move the Greens to the political centre provokes the party's sandalled fundamentalist wing. The "Fundis" have the upper hand in the Green part of a fractious coalition of SPD and Greens in North Rhine Westphalia. The frequent crises afflicting the state government in Düsseldorf have done nothing to strengthen the case for a red-green coalition at the national level.

Mr Scharping has made clear that he would favour campaigning in 1998 on the assumption that the SPD would coalesce with the Greens. But there are no signs of a formal decision. Also unclear is the identity of the opposition candidate for the chancellorship.

Mr Scharping, who failed to unseat Chancellor Kohl in 1994, partly lost his position as SPD leader because of an ill-judged campaign to be made the party's candidate for the top job. His parliamentary performances have improved somewhat since November, but he still tends to produce poor speeches on important occasions, such as last month's first reading of the 1997 federal budget. Mr Lafontaine shows little sign of hunger for the highest office: he was the unsuccessful candidate in 1990 when he was also injured in an assassination attempt.

Gerhard Schröder, the pro-business SPD prime minister of Lower Saxony, is the man opinion polls say has the best chance of dislodging Mr Kohl in 1998. But he has kept a low profile in recent months following the highly-publicised break up of his marriage early this year. His party also lost support in last month's municipal elections in Lower Saxony.

In the circumstances, it is no surprise that the Bonn coalition wants to hang on to Mr Kohl as chancellor and that Mr Kohl wants to keep the electorate guessing for as long as possible about whether he will run in 1998 to wrong-foot the opposition.

PROFILE Guido Westerwelle, general secretary of the Free Democratic Party

Sharp-tongued lawyer

Mr Westerwelle is undoubtedly the noisiest newcomer in German politics

Guido Westerwelle can certainly raise eyebrows, which is more than many other members of the Free Democratic party have been able to do in recent years.

Small wonder, then, that the 34-year-old general secretary has managed to thrust the small liberal party back into the headlines with his knack for snappy slogans and quick retorts.

"Since the FDP has started saying things so provocatively that they are actually printed things have been getting better," he says in between mouthfuls of lunch at his desk. "The best speeches are pointless if nobody is going to print them."

Mr Westerwelle, Bonn-born and bred and a lawyer by training, is undoubtedly the noisiest newcomer in German politics. Singlehandedly, it seems, he has hauled the FDP off its sick bed and begun reshaping the party. It will remain the party of free market economic policies. However, it needs to recover its role as a force for civil rights and technological progress, he says.

In deference to his party elders, Mr Westerwelle insists that the FDP's new-found prominence is not the result of his work alone. Wolfgang Gerhardt, the party's new boss since June 1995, Hermann Otto Solms, the wily aristocrat who leads the parliamentary party, and others have helped reshape the party's agenda.

But it is clearly the sharp-tongued lawyer Westerwelle who has gone out and sold it. While Mr Gerhardt represents the party's "reliability", and Mr Solms manages the parliamentary nitty-gritty needed to keep the coalition with Chancellor Helmut Kohl's Christian Democrats alive, Mr Westerwelle prefers football analogies to describe his role.

"I've been tasked with being the offensive, the rather aggressive striker," as he puts it.

But has Mr Westerwelle done more than just rectify the state of affairs left behind by his predecessor Werner Hoyer, now the man managing Germany's strategy at the inter-governmental conference?

The FDP did surprisingly well in three state elections in March, giving Mr Kohl's government an unexpected new lease of life. Prior to those three polls, however, the FDP had failed to reach the 5 per cent mark in 11 state elections, a string of electoral batterings which lasted almost two years.

When the party did finally recover its poise this spring it did so in Länder which are traditional FDP bastions. One of the reasons it scored almost 10 per cent in the affluent south-western state of Baden-Württemberg is because the party was founded there in 1948.

Mr Westerwelle, however, is adamant that the small liberal party will again become the third force in German politics.

The FDP "had been written off" just nine months ago, he says, but the latest polls put the party on 7 per cent, just 1 per cent behind the Greens who displaced them as the third political force in Germany in 1994.

Guido Westerwelle: a knack for snappy slogans

He cannot name the polling organisation providing the data – on the curious grounds that he would then have to pay for the service – but the evidence that the FDP is on its way back to becoming the third force in German politics is incontrovertible, he insists.

Getting there will mean sounding even more controversial, even if, in the process, the FDP risks offending the sensibilities of voters. "We never have to worry how 75 per cent of people react to these things," Mr Westerwelle said. "All I have to do is get across to the 25 per cent who would ultimately be prepared to vote FDP. They have to be convinced – not the die-hard socialist or stick-in-the-mud Green."

Mr Westerwelle has certainly set this renewal process in motion, not only through his jack-in-the-box-like appearances on television but also by helping to overhaul the party's programme and its slogans.

The fateful phrase that caused the party so much trouble before the last federal elections, the slogan that the FDP was the political home of the *Besserverdienenden*, people who earn more money, has been replaced by the *Leistungsbereiten*, those who are prepared to make an effort.

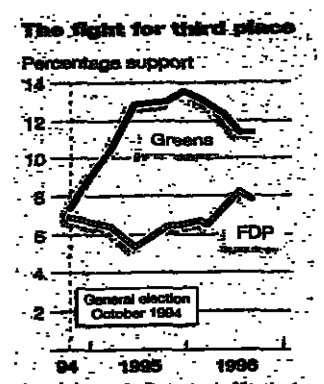
The new party programme, approved this summer, is designed to highlight the old attributes of the FDP and focus on some newer virtue. There is plenty about lower taxes – where the FDP has taken the offensive – and the need for more market forces. Germany's social security system, facing unprecedented pressures, needs to be reformed and more money spent on new technologies instead of old industries such as coal mining. More will also be said about civil rights, another FDP issue that the Greens successfully exploited.

But while listeners have picked up the new, sharper tones which the FDP is transmitting, they often wonder whether Mr Westerwelle himself is anything more than a mouthpiece of the party.

Recovering that third place means that the FDP badly needs a jack-in-the-box to get its message across. Once that is done the party may well need a very different general secretary.

Michael Lindemann

The fight for third place



Source: Institut für Demoskopie Allensbach

■ Bundeswehr: by Michael Lindemann

Armed forces face savage cuts

A 340,000-strong Bundeswehr is vital to meet defence commitments

Millions of Germans have been treated to unusual sights and sounds as they relax in front of their televisions on autumn evenings *this year.*

Viewers have been swept away into the dimly lit interior of a military transport aircraft, watched paratroopers cast nervous glances at each other with a turbulent night sky in the background. "Go," the sergeant shouts as one of them hurls himself out of the aircraft.

Advertisements such as *these are meant to convey* an impression of the adventure and the challenges offered by military service in the Bundeswehr, Germany's armed forces.

But the single biggest question facing Germany's defence planners is how much longer they will be able to run these advertisements.

The problem for the defence planners is how much longer Germany can afford to finance conscription in the Bundeswehr, a model which, critics say, was designed to create a large standing army able to confront the Soviets during the cold war and which is *now outdated.*

Volker Rühe, defence minister, has seen his budget savaged in recent years, losing more than DM1bn alone this year because of pressure to keep government spending within the 3 per cent budget deficit required by the Maastricht criteria.

He could close more barracks and delay spending to *modernise existing ones,* as he has already done repeatedly.

His real problem, however, analysts say, is that he wants both to maintain a large conscript army and at the same time invest up to 30 per cent of his budget in new equipment.

Some of that equipment, notably the weapons systems being developed multilaterally or in a series of Franco-German projects, have once again been delayed by budget cuts. Foremost among them is the Eurofighter, the four-nation fighter aircraft which looks as if it will be delayed again.

And as Mr Rühe scrambles around for funds, speculation is increasing that either military service or newer equipment will have to give way to finance the Bundeswehr with constantly shrinking budgets.

So far Mr Rühe has dis*missed suggestions that con*scription and the idea of the "citizen in uniform" would be superseded by professional armies as they have been – or *will be* – *in a* growing number of armies across Europe.

Chancellor Helmut Kohl, not known for his fondness *of the defence minister,* has also been unequivocal. Military service must be maintained, he says, so that Germany's army does not again develop into an independent centre of power.

Discussions about the future of conscription, which many observers feel will become more frequent in coming years, do not appear to have made much impression at the defence ministry in Bonn.

A 340,000-strong Bundeswehr is vital if Germany is *to meet its defence commit*ments within Nato, the ministry says, and simply replacing conscript soldiers with professionals would raise the Bundeswehr's personnel costs by 27 per cent, a spokesman said.

Nor does the idea that shrinking budgets might force the Bundeswehr to reconsider its strategic role *appear to be particularly* current at the defence ministry.

The pressure, though, is growing even if discussion about the Bundeswehr's future remains one of the "biggest taboos" in Germany, according to Heinz Schulte, a Bonn-based defence analyst.

The real reason the Bundeswehr is so stoutly defended, Mr Schulte says, is because it has created, inadvertently, an army of 160,659 *young Zivis,* Germans who are conscientious objectors and have instead opted to work in hospitals and old peoples' homes – so-called civil service.

These young Germans have helped keep Germany's generous social security system afloat given that they are paid less than the cost of employing normal labour, Mr Schulte says.

But with unemployment at *a post-war record of around* 10 per cent, Mr Kohl's government needs to find ways to get younger people into work earlier so that they can *help fund the social security* system through direct contributions. The work in old peoples' homes, Mr Schulte suggests, could be done by older unemployed labour.

If civilian service is ever replaced by ordinary labour that, too, would heighten the need to re-shape the Bundeswehr, the primary supplier of Zivis.

The number of Zivis is expected to rise, according to Peter Tobiassen, a spokesman for the Central Unit for the Rights and Protection of Conscientious Objectors.

"Because there is a growing number of conscientious objectors we are assured of almost continuous growth," *Mr Tobiassen said.*

So far Mr Rühe has fought valiantly to preserve the idea of "the citizen in uniform".

This summer he even proposed a new Franco-German agreement whereby France creates Europe's largest professional army for use in international operations and Germany maintains Europe's largest conscript army from which reserves could be drawn more quickly during crises.

A growing number of commentators believe, however, that new political priorities – and most *importantly* – money are not on Mr Rühe's side.

PROFILE Berti Vogts, manager of Germany's football team

Soccer boss bounces back

The manager of the victorious German team has been written off several times

Football managers, like politicians, need thick skins, so it may be no surprise that a rapport has developed between Chancellor Helmut Kohl and Berti Vogts, manager of Germany's national team. After Germany had won the European Championship in June, Kohl entered the London television studio where Vogts was being interviewed and effusively praised the achievements of him and his team.

Both men have been written off several times. Mr Kohl, now seemingly unassailable, has sat through numerous crises in his 14 years in office and outlasted many critics. Mr Vogts, 49, has endured the sting of the media and the scorn of the public when the team has not performed well. "Why do I do this to myself," he recalls asking himself just before Christmas, 1994, when spectators chanted "Vogts out" – not for the first time – as Germany struggled to a narrow victory over Albania.

Mr Kohl's support has undoubtedly helped Vogts overcome such trying times. He is also fulsome about the support of his wife, Monika, who he says has often give him useful advice as well as moral reinforcement. When both were watching Oliver Bierhoff play for an Italian club, she told her husband he should put him in the national team. He did, and Bierhoff repaid their faith by scoring two goals in the European final against the Czech Republic.

Monika also told him to relax his somewhat overbearing attitude to the players after this had patently failed to produce results during the World Cup two years ago. "Be more of a friend to the players," she advised. "Help them instead of being too distant. And stop acting like a headmaster."

No doubt the tactful advice helped Mr Vogts as much as the players. He seriously considered resigning after Germany was knocked out of the World Cup by Bulgaria. "I thought about whether I should continue. The players had failed, but only I was criticised."

Yet Mr Vogts' climb back from sporting despair was not long in coming. Early last year, he was heartened by several impressive performances by the German team, even though these did not result in wins. He saw new spirit during a goal-less draw against Spain. "We played badly, but we fought tremendously. The players were so dissatisfied that they sat together afterwards for a long time and held a whole-hearted discussion. Then I thought: 'Something's happening'."

When Germany later lost to France, just before the European Championship, Vogts was almost pleased. "What's the matter with you? Why are you in such a good mood?" his wife asked him. "The defeat was important," he replied. "The French were now the favourites for the cup." That took a burden of expectation off the team. The players went on to give their manager his first championship triumph since he took over in 1990 from the charismatic, outspoken Franz Beckenbauer, whose barbs have not always been helpful.

Both previously played for the national team: Mr Beckenbauer in a forward, floating role which brought him fame as a supreme tactician, and Mr Vogts as a defender who received little of the glory showered on his more glamorous team-mate.

Mr Vogts, whose club was Borussia Mönchengladbach, was likened to a terrier, tackling fiercely and never giving up. Those qualities have stood him in good stead as manager, as have his insistence on the importance of the team above its individual players, however gifted, and on the need to accept *defeat as part of sport.* He is also far less concerned about money than some of his high-earning colleagues.

"If we can't free ourselves from always having to think we must win, the day will come when we won't play any role in world football," he told television journalist Roger Willemsen. Mr Vogts wants above all to see fun and spirit in the game – "being a good loser is also part of sport".

Mr Vogts knows the need for that, both on and off the field. He was brought up by an aunt after his mother died when he was 12, and his father a year later. A misguided priest said at the funeral that if young Berti had not been so cheeky, perhaps his parents would have still been alive. He never forgot that cruel remark, though he is a devout Christian with a critical view of the Catholic church.

Christened Hans-Hubert, he grew up in the lower Rhine area where football quickly took over his life. His love for the game stretches beyond the world of the big clubs and the international championships to the people who play the game locally and on the streets for fun. "Football is too organised," he told Willemsen. "People must want to play, especially the children. I wouldn't mind league tables being done away with so children could just play."

Mr Vogts is also conscious that the game could not thrive without the mass of willing helpers. When he was awarded the Bundesverdienstkreuz (federal service cross), he accepted it from President Roman Herzog in the presence of the team and in gratitude for all those such as youth trainers, doctors and others who had done so much for the game. "I only did my job," he said.

Apart from doing his job, however, Mr Vogts manages to live a full life well outside the world of football. He is an admirer of President Nelson Mandela of South Africa, he has visited the slums of Johannesburg and New York as well as the Australian, Canadian and Alaskan wilderness – he has always been fascinated by the outdoor novels of Jack London – and Israeli kibbutzes.

In Mr Willemsen's words: "Berti Vogts is not only by far the most cosmopolitan national manager in German football history, but he also wholly contradicts the impression of narrow provincialism that used to circulate about him, which is also the archetypal picture of the German who organises his football and free time like a ground attack and wants to be crowned with success." Vogts certainly appreciates success, now it has arrived at last, but narrow he is not.

Andrew Fisher

Berti Vogts: like a terrier, tackling fiercely and never giving up

■ Wagner festival: by Wolfgang Münchau

Succession battle rages

A new generation of Wagners is challenging Wolfgang for the leadership

No composer has stirred up *as many violent emotions as* Richard Wagner, and the same has been true of the famous opera festival he founded at Bayreuth.

Hitler infamously declared Bayreuth to be Germany's *cultural capital,* and there is still a surprising number of people who would not argue with that. The sleepy Franconian city in northern Bav*aria breathes political, artis*tic, and family controversy. At present, Bayreuth is engaged in a raging succession battle worthy of a soap opera.

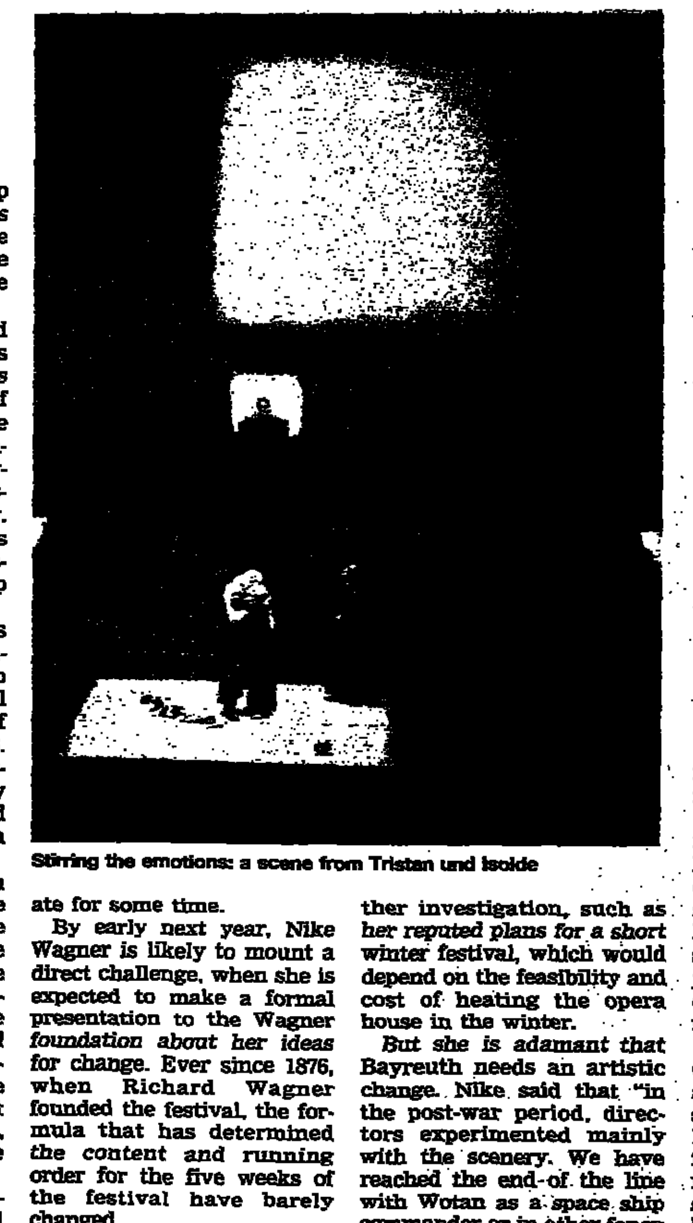
The patriarch in charge is *Wolfgang Wagner,* a grandson of Richard Wagner, who became the sole festival director after the death of his brother Wieland in 1966. Now 77, Wolfgang's leadership is being challenged by the next generation and especially by Nike Wagner, a daughter of Wieland's.

Eva, Wolfgang's own daughter, is possibly the strongest contender, because she is considered to be the most experienced among the fourth generation of Wagners. But relations are soured, *since Wolfgang fired* her in 1976 in another internal family feud. The same year after divorcing his first wife, he married Gudrun, who is now *pulling the* administrative strings.

Nike is a writer and journalist, with no first-hand experience of running the *festival,* but with a host of new ideas. In an interview, she said "the family is a political thing. As long as we have a common enemy, everything is all right. We have built a common front against Wolfgang Wagner because we find the leadership too old and lacking in imagination, because he is trying to outlast us. He has had his time, you could say that. He has been there since 1951."

Under the statute of the Wagner *foundation,* Wolfgang's contract runs until the day he dies. But recently there has been growing pressure on him to step down, especially from German opera critics.

*Wolfgang's latest produc*tion of Die Meistersinger, which premiered this summer, was roundly condemned, even given the low expectations his own productions have tended to generate for some time.



Stirring the emotions: a scene from Tristan und Isolde

By early next year, Nike Wagner is likely to mount a direct challenge, when she is expected to make a formal presentation to the Wagner *foundation about her ideas* for change. Ever since 1876, when Richard Wagner founded the festival, the formula that has determined *the content* and running order for the five weeks of the festival have barely changed.

Only 10 Wagner operas, including the four comprising Der Ring der Nibelungen, *are regarded* as worthy for the festival. No operas from other composers are allowed. The festival house stands empty for almost 11 months of the year.

Nike *wants to change all* that: "I don't want a multicultural festival. Bayreuth is and remains Wagner's theatre. But you could perform pieces that have a connection [to Wagner], histori*cally, musically;* or pieces from a composer who built on Wagner, like Stockhausen, who is maybe the Wagner of our time, whether you like him or not. There are numerous possibilities but I *would* keep Wagner at the centre."

She does *not want* to unveil the exact details of her proposals before putting them before the foundation. Some aspects may need further investigation, such as her reported plans *for a short* winter festival, which would depend on the feasibility and cost of heating the opera house in the winter.

But she is adamant that Bayreuth needs an artistic change. Nike said that "in the post-war period, directors experimented mainly with the scenery. We have reached the end of the line with Wotan as a *space* ship commander or in other fancy dress. This is a dead end. It does not matter whether you paint the stage blue or green. That is why I believe we need to think about repertory, historic connections and other composers."

Wolfgang remains firmly weeded to the traditional formula. The last genuine artistic *highlight* dates back 20 years.

In his book "Bayreuth, a History of the Wagner Festival" Frederic Spotts recollects the scandal caused by the now celebrated 1976 production of Patrice Chéreau, a young French director at the time. His *only previous* point of contact with Wagner was having fallen asleep in a performance of "Die Walküre" in Paris.

Chéreau cast each of the four operas in a different *time period:* Rheingold as pre-capitalist, Walküre as early capitalist, Siegfried as late capitalist, and in Götterdämmerung fascist-like soldiers were carrying machine guns.

The premiere was a classic opera scandal, with the audience almost pulling down the chairs in anger. Spotts says that several big Bayreuth sponsors, including Siemens, had threatened to cancel their support in protest. But over the next few years the perception would change after the critics had declared the Chéreau Ring a masterpiece.

At the end of the last Chéreau *Ring in* 1980, *the* audience gave a 90-minute ovation, probably one of the longest in the history of the performing arts.

Chéreau marked an artistic break from tradition when *Germany slowly* woke up from its historic amnesia. In the 1960s, as Spotts recollects, Bayreuth was a national stronghold of the NPD, a party on the far right.

Booksellers refused to sell critical books about Wagner, especially anything connected with the third Reich for fear of harassment.

Later, at Bayreuth's centenary celebrations in 1976, President Walter Scheel caused an embarrassing silence with a speech about *Bayreuth and fascism. He* said: "Bayreuth's history is part of German history. Its errors were the errors of our nation."

But despite all political controversies, and declining artistic standards, Bayreuth survived. While Richard Wagner himself struggled to fill the auditorium, there is now a waiting list of up to *seven years.* Bayreuth itself has become the event.

There is a saying that the Salzburg festival is fun, and that Bayreuth is work. Nietzsche once said that the Bayreuth audience itself is worth *watching, and this* still holds true today. Nike says: "I always note to my astonishment that young people are still turning to Wagner, despite rock and pop and all that. And I also *believe that even the older* audience will tire of boring performances."

If it is left to Wolfgang, the time-honoured rhythm will continue into the new millennium. Nike thinks this would accelerate the artistic decline of the festival. She said: "They say [Wolfgang] is a magnificent festival director. He certainly knows how to save money like no one else. He knows every nail in the building, and it is true that the expenditures will go *up* under anyone who takes over. But then, money is not the problem here."

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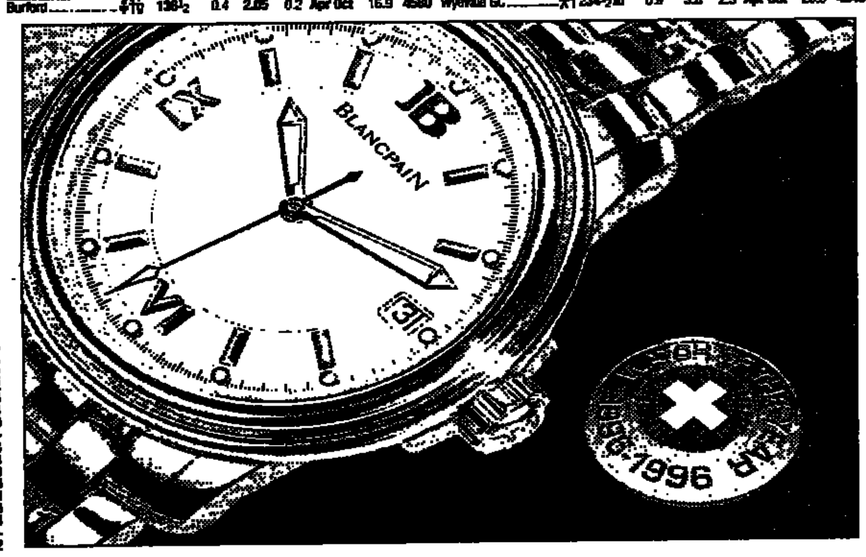

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Barlow	‡†	697½	-4.3	091c	–	Jan Jul	17.6	–
Gold Flds Prop R		133½	1.4	080c	1.5	Mar Sep	26.2	–
NA Props		64	6.7	053.9c	–	Mar Sep	9.95	–
SASOL	♥	645	----	078c	–	Oct	9.93	–
SA Brews		£16⅞	-2.8	0200c	ф	Jul Dec	3.6	4113
Standard Bank		£25⅝	-4.8	0284c	3.1	Sep Mar	–	–
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LUXEMBOURG (REGULATED)(**)

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Do Sterling	£101.57		5.06	45117
Do Swiss Franc	SFr100.81		0.58	45118
Do Deutschmark	DM100.85		2.1	45119
Do Yen	Y10000		0	45120
GSAM Oracle	$191.21		-	58478
GAM Strategic				
Diversity Strategic A	122.70		-	54887
Diversity Strategic B	120.61		-	54888
European Strategic A	121.38		-	54889
European Strategic B	118.88		-	54890
Trading Strategic A	118.85		-	54891
Trading Strategic B	117.16		-	54892
Developing Mkts Strategic A	113.57		-	54893
Developing Mkts Strategic B	114.83		-	54894

Jardine Fleming Unit Trusts Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
JF Japan Tech Tst	Y32125	33987	-	45328
JF Korea Trust	$8.68	9.19	-	47770
JF Malaysia Tst	$32.40	34.28	-	50319
JF New Zealand Tst	$19.06	20.18	-	40545
JF Nomura Asia Tst		$18.84	-	40903
JF Pacific Inc Tst(z)	$13.98	14.80	-	45326
JF Pacific Smlr Cos Tst	$7.87	8.13	-	49894
JF Pacific Secs Tst(z)	$54.03	57.17	-	45327
JF Pakistan Trust	$3.39	3.59	-	54106
JF Philippine Tst	$103.91	109.94	-	45332
JF Taiwan Trust	$11.18	11.84	-	-
JF Thailand Tst	$32.81	34.72	-	42598
JF India	$19.41	20.54	-	40765
JF Indonesia Trust	$9.61	10.17	-	55408

Global Asset Management - Contd.

	Selling Price	Buying Price	Yield Gross	City-Line
GAM Select				
Select Asean Class A	$93.87		-	58529
Select Asean Class B	$92.35		-	58530
Select European A	$107.29		-	58531
Select European B	$100.81		-	58532
Select Japan A	$113.70		-	58533
Select Japan B	$117.28		-	58523
Select Money Markets B	$101.49		-	-
Select North American A	$110.89		-	-
Select North American B	$129.24		-	58537
Select Pacific A	$108.31		-	58538
Select Pacific B	$105.11		-	58539
GAM Managed Portfolio				
Managed Portfolio	$1118.04		-	68524

Jardine Fleming Unit Trusts Ltd - Contd.

	Selling Price	Buying Price	Yield Gross	City-Line
International Funds				
JF American Growth Tst	$26.92	28.49	-	45335
JF Continental Euro Tst	$4.03	4.28	-	45337
JF European Tst(z)	$16.78	17.76	-	45336
JF Germany Tst	DM11.70	12.39	-	40678
JF Global Bond & Currency Fd	$17.22	18.23	6.3	49938
JF Global Convertibles Tst	$14.17	15.00	-	46769
JF Global Securities Tst	$23.41	24.78	-	45334
JF International Bond	$10.45	10.84	-	98580
JF Managed Currency Fd	$15.43	16.33	-	47031
JF Masterfund				
JF Asia Growth Ptfolio	$8.95	9.48	-	-
JF Intl Growth Ptfolio	$10.48	11.10	-	-
JF Money Fund - US$	$104.98	104.98	5.08	40152

OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 18 / Sch) · BELGIUM/LUXEMBOURG (Oct 18 / Frs.) · CZECH REP (Oct 18 / Koruna) · DENMARK (Oct 18 / Kr) · FINLAND (Oct 18 / Mkk) · FRANCE (Oct 18 / Frs.) · GERMANY (Oct 18 / Dm.) · GREECE (Oct 18 / Drachma) · ITALY (Oct 18 / Lira) · NETHERLANDS (Oct 18 / Fls.) · NORWAY (Oct 18 / Kroner) · POLAND (Oct 18 / Zloty) · PORTUGAL (Oct 18 / Escudo) · SPAIN (Oct 18 / Pts.) · SWEDEN (Oct 18 / Kronor) · SWITZERLAND (Oct 18 / Frs.) · TURKEY (Oct 18 / TL Lira)

		+/-	High	Low	Yld	P/E
Accor	643	-1	802	645	4.7	...
AirLiq	795	+8	888	708.16	2.6	...
Alcatel	485.10	+2.60	500	388	2.6	...
ArjPri	1,150	...	1,600	1,150	3.0	...
Axa	318.70	+2.80	329.61	248.48	3.1	...
BIC	774	+11	788	432	1.9	...
BNP	199.20	+.90	238	171	2.7	...
Bocair	620	+5	605	467.10	2.9	...
BFcom	174	-5.50	200	115	3.0	...
Bongrn	2,030	-14	2,095	2,025	4.5	...
Bygues	525	+13	694	444.80	4.9	...
CEP Com	378.90	-4.10	533	340	4.0	...
CGIP	1,165	...	1,265	910	4.8	...
Canal+	1,229	...	1,339	814	2.4	...
CapGem	236	-20	242	121.50	4.4	...
Crfour	2,865	+40	2,950	1,1??	1.7	...
Casino	230.60	+.60	231.80	133.50	2.5	...
Cerus	124.50	-.50	153.50	52.10	...	...
Chgint	216.20	-.80	245	180.50	...	...

		+/-	High	Low	Yld	P/E
RWE Pf	...	...	...	...	...	...
RWEden	410	+9.50	417	381	3.9	...
RheinE	1,338	-7	1,410	1,060	1.1	...
Rhnmtl	207	+2	240	185	3.4	...
Rustas	256	...	278	175	...	...
SAP AG	277	+5.50	280	171	0.5	...
SSLCar	180	-2	189.50	109	0.9	...
SKW	45.35	+.04	46.70	29.50	2.2	...
Schrng	123.50	+.05	125.35	94.80	1.3	...
SchLub	315	-2.50	320	190.20	1.6	...
Siemens	80.77	-.01	86.13	71.80	16.1	...
SpAxRg	970	+10	1,000	843	1.8	...
Strbag	128.50	+.30	315	112	8.2	...
Suedzk	585	-9	594	503.24	3.0	...
THYSS	128	+.50	158	121	4.7	...
Thyssn	282.20	+1.10	302	250	2.1	...
Varta	275	-1.50	336	260.10	3.6	...
Veba	83.35	-.15	86	55.50	2.0	...
VEW	500	...	530	420	1.8	...

		+/-	High	Low	Yld	P/E
IFI Pr	11,170	+170	17,780	10,610	4.0	...
IFIL	3,930	+15	6,350	3,450	3.1	...
IFIL S	2,370	+20	2,875	1,940	6.9	...
INA	13,085	+365	13,080	8,170	3.8	...
Ital	2,150	+5	2,480	1,850	2.6	...
Italcm	8,425	+210	13,300	6,165	0.9	...
Italcm	3,580	+80	5,610	3,410	8.7	...
Italgas	5,680	+45	5,900	3,905	2.3	...
Espres	4,060	-10	4,480	2,670	2.5	...
MagMar	1,585	+15	3,385	1,585	5.0	...
Mrzoto	8,600	-150	11,500	8,600	2.7	...
Medest	7,490	+160	7,745	6,745	...	...
Medbnc	8,310	+85	11,630	7,815	2.4	...
Monted	1,025	+5	1,578	863	...	...
MontRs	936	...	995	671	...	...
Olivet	449	-27	1,336	445	...	...
PireS	1,695	+20	2,370	1,575	4.7	...
PirSpa	2,880	+45	2,880	1,911	1.7	...
PremFn	285.50	+3.50	707	281	...	...
RAS Ri	7,530	+30	9,050	6,410	5.3	...
RAS	14,700	+155	17,970	12,500	2.3	...
Rinasc	9,100	-100	11,295	8,550	1.1	...
SAI	12,700	+50	18,250	11,810	1.6	...
SAI Ri	4,955	+5	7,490	4,510	4.8	...
SASIBs	4,930	-70	7,840	4,600	4.1	...
SASIB	2,750	+5	4,070	2,370	6.0	...
STET	5,375	+105	5,750	4,060	2.4	...
STET R	4,180	+75	4,485	2,870	3.6	...
SaffaA	1,970	-6	4,930	1,930	...	...
SnpBm	7,715	+140	7,715	3,180	1.6	...

		+/-	High	Low	Yld	P/E
Helnkn	318.30	+.50	402	266.20	0.6	...
HollBe	321	+10	330	230	4.0	...
HgvDoR	63.40	-.80	69.20	48.30	4.7	...
HunDgl	127	+.50	133	86.80	1.8	...
IHCCal	100	+4	100.50	42.50	1.8	...
ING	58.30	+.80	58.40	36.32	1.5	...
INGBkG	63.52	...	63.52	52.61	...	...
IntMue	44.20	+.50	44.40	26	10.9	...
KLM	42.70	-.30	64.30	41.80	4.7	...
KNP BT	38.70	-.40	48.50	34.70	4.5	...
KPN	60.70	-.20	68.50	54.40	1.6	...
KPkDoR	52.70	+.70	52.70	38.20	3.4	...
KBB	120.50	+.50	150	101.50	2.8	...
Kldyd	42.60	-.20	47	28.10	2.9	...
NutrDR	247	+5.50	248.70	112.20	0.9	...
OceGr	188xd	-4.10	197.80	89.60	0.5	...
Otra	32.30	-.10	42.50	27.70	3.9	...
Philip	60.80	-.20	72.50	46.50	2.6	...

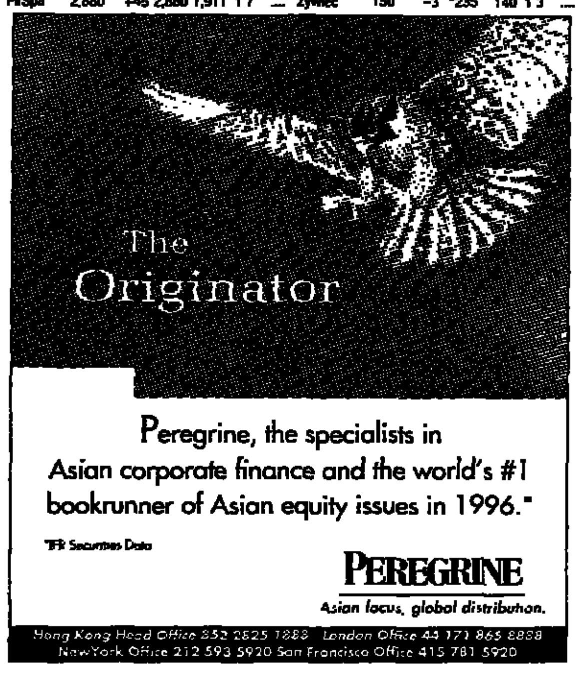
		+/-	High	Low	Yld	P/E
Mapfre	6,190	-20	7,120	5,400	1.5	...
Mtrowa	4,530	+120	4,560	3,590	1.3	...
PortV	7,820	+10	8,950	7,150	2.7	...
Pryca	2,930	-5	3,290	2,300	1.6	...
Repsol	4,440	-10	4,880	3,530	3.9	...
Sarrio	421	-5	558	400	1.7	...
Sev El	1,245	+80	1,280	776	3.2	...
SolMel	3,425	+25	3,425	2,915	...	...
TabacA	5,260	...	6,790	3,920	3.0	...
Telefn	2,515	+10	2,540	1,480	2.2	...
Un Fen	864	+33	869	545	5.8	...
Uralit	1,110	...	1,350	980	4.0	...
ValCem	1,425	...	1,580	1,250	11.9	...
Valhrm	2,680	+50	2,670	1,865	1.0	...
Viscfn	2,080	...	2,285	1,115	1.0	...
ZardO	13,280	-20	13,880	11,220	5.0	...

POLAND (Oct 18 / Zloty)

		+/-	High	Low	Yld	P/E
Elktrm	26.80	-.20	28	8.35	0.7	...
Exbud	25.60	...	40.75	22.20	...	...
Mostl	14.30	-.10	15	6.40	...	...
Wedel	182	-2.50	182.50	82	0.7	...
Wlczmk	18.60	-.10	25	17.80	1.6	...
Zywiec	150	-3	235	140	1.3	...

PORTUGAL (Oct 18 / Escudo)

		+/-	High	Low	Yld	P/E
BCO Pl	1,830	+30	2,300	1,401	5.5	...
BCPort	1,879	-7	2,250	1,675	3.2	...
BESant	2,630	...	2,660	2,090	4.4	...
BancTA	2,742	-8	3,120	2,372	5.9	...
ModCnt	4,710	+40	4,800	3,430	1.3	...
PTelcm	4,050	-4	4,180	2,705	2.2	...
Sonlnv	4,525	-4	4,600	3,075	3.3	...
Unicer	2,890	-4	3,000	2,260	3.6	...



PACIFIC

JAPAN (Oct 18 / Yen) · HONG KONG (Oct 18 / H.K.$) · INDONESIA (Oct 18 / Rupiah) · MALAYSIA (Oct 18 / MYR) · NEW ZEALAND (Oct 18 / NZ $) · SINGAPORE (Oct 18 / S$) · AUSTRALIA (Oct 18 / Aust$) · SOUTH KOREA (Oct 18 / Won) · TAIWAN (Oct 18 / TW $) · THAILAND (Oct 18 / Baht)

		+/-	High	Low	Yld	P/E
DaiyFal	831	+1	720	515	1.1	...
ChubuE	2,380	+20	2,670	2,340	...	...
ChgPhm	1,060	+10	1,100	890	...	...
ChugEP	2,330	+30	2,510	2,250	...	...
ChuoTB	1,240	+20	1,240	707	...	...
CtzWch	896	...	936	690	0.8	...
CsmOil	630	+20	732	474	...	...
D'calC	610	+9	698	517	...	...
DaidoS	487	+1	589	447	...	...
Daiei	1,050	-10	1,490	985	...	...
Daiibk	1,450	-10	1,750	1,100	0.8	...
DaiIKB	1,930	+30	2,160	1,670	...	...
D'chlP	1,740	+10	1,790	1,330	...	...
Daikin	1,100	+20	1,240	800	...	...
Daikyo	760	-3	906	656	...	...
D'maru	725	+8	859	581	...	...
DNpink	508	+3	570	412	...	...
DaiNPh	1,180	-10	1,220	897	...	...
MoriS	1,800	+60	2,470	1,710	...	...
MurMan	3,910	+40	4,340	3,100	...	...
Mycal	1,780	...	1,900	1,170	...	...
NEC	1,270	-10	1,420	1,080	...	...
NGK In	1,170	...	1,250	920	...	...
NGK Sp	1,200	+30	1,480	1,100	...	...
NHK Sp	492	+8	681	465	...	...
NKK	290	+5	349	243	...	...
NOK	831	+29	1,100	670	...	...
NSK	797	+11	858	600	1.0	...
NTN	761	+18	805	581	...	...
NchiFu	505	+12	545	356	...	...
Ng'kly	615	+26	1,100	374	...	...
Nagase	970	+4	1,080	796	0.8	...
NghRrd	474	-1	570	470	...	...
NatHse	1,730	+40	1,970	1,600	...	...
NadLns	285	+6	387	235	...	...
Nchire	722	+10	790	585	...	...

		+/-	High	Low	Yld	P/E
McPhsn	3.15	+.05	3.20	0.02	...	15.0
MetMl	2.80	...	3.35	2.44	5.7	...
NAB	13.35	-.11	13.96	10.98	6.2	15.5
NatCon	1.08	+.01	1.10	0.75	5.7	3.7
NatFds	1.51xd	+.02	1.71	1.35	3.8	...
Nwcrst	4.47	+.18	6.68	4	2.8	...
NewsCp	7.38	+.13	7.78	6.03	0.4	6.9
Normdn	1.82	+.05	2.70	1.48	3.3	...
North	3.63	+.03	4.04	3.28	3.4	...
OPSM	3	+.09	3.05	1.82	4.5	...
Orbitl	1.06	-.03	1.41	0.78	...	...
PacDun	2.76	+.06	3.37	2.38	5.1	...
PacMag	3.33	-.05	3.50	2.78	6.1	...
Pasmnco	1.95xd	-.04	2.04	1.38	1.5	...
Pionin	3.48	-.03	4.03	3.18	5.2	14.5
PlaPac	1.62	+.04	3.26	1.37	1.5	...
Plutnc	5.98	+.08	7.92	4.89	0.7	...
PotlBr	5.86	-.11	6.42	4.10	2.6	...
QBE In	6.88	...	8.40	4.52	3.8	...
QCT Rs	1.75xd	-.02	1.85	1.50	5.9	...
Qntl	2.50	-.03	3.31	2.38	4.4	...
Qantas	1.93	-.01	2.47	1.85	6.7	...
RGC	5.42	-.08	6.90	5.35	2.8	...
Rothmn	7.80	...	7.80	4.80	5.5	...
Santos	5.19xd	+.02	5.45	3.47	2.1	12.1
Schind	2.49	...	2.50	2.18	...	...
SchrPr	2.38	...	2.40	2.01	7.8	...
7 Netw	3.85xd	+.05	4.15	3.27	4.4	...
Simsmt	6.78	-.26	8.15	6.57	6.2	...

MONTREAL (Oct 18 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Oct 18 / Rand)

		+/-	High	Low	Yld	P/E
St Hel	27.80	-.70	34	19	12.4	...
StandB	182	-.50	195	135	1.2	...
TigOat	65	+.25	72	50	1.1	...
TongHul	55.50	-.75	69	47	1.6	...
VReefs	372.50	-2.50	460	292	4.0	...
W Area	69.50	...	75	51	1.4	...
W Deep	142.50	-1.50	223	100.50	4.6	...
Winkln	26.50	-1.40	44.50	25	7.5	...
Woltru	13.30	-.05	20.75	15	2.3	...

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Prices in US $.

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NORTH AMERICA

CANADA

TORONTO (Oct 18 / Can $)
4 pm close

Sales			+/-	High	Low
85359	AbtIb	17¼	-⅛	26⅞	16½
63940	AgnEag	19⅞	...	28	14⅝
135328	AirCda	5	...	5⅝	4⅛
751551	AlbtaE	28	+⅛	29⅜	20⅛
823992	AlcnAl	43½	+⅜	47⅛	38¾
46170	AtcoCl	20¾	-⅛	21¾	18½
49278	Avenor	21½	...	29½	18⅞
14883	BCSugA	11⅝	+¼	11⅝	7⅞
134518	BC Tel	27¾	+¼	28¼	23
381190	BCE	59¼	-⅛	59⅝	47
5535	BCE Mb	48½	-½	48½	39
4700	BGR A	18¾	+⅛	20⅝	13⅛
1308020	BkMont	41⅛	+¼	41⅝	29
342754	BkNovS	41¾	+¼	42¼	26¾
861361	BrckGd	34⅞	-⅜	45	30⅝
75411	BeauEx	2.3	-.1	2.75	1.25
400	BombA	20⅝	-¼	21⅞	14⅞

INDICES

	Oct 18	Oct 17	Oct 16	1996 High		1996 Low	
Argentina							
General(29/12/77)	16956.08	16967.16	16750.3	18881.85	20/5	15297.25	22/8
Australia							
All Ordinaries(1/1/80)	2355.0	2353.8	2365.0	2388.20	15/10	2088.10	17/7
All Mining(1/1/80)	—	954.8	957.4	957.1	1118.40 8/5	923.10	23/9
Austria							
Credit Aktien(30/12/84)	374.86	370.76	363.54	394.98	31/5	349.19	6/9
Traded Index(2/1/91)	1093.0	1089.80	1073.54	1142.61	28/5	976.27	2/1
Belgium							
BEL20(1/1/91)	1806.20	1798.08	1791.14	1829.85	3/10	1574.90	2/1
Brazil							
Bovespa(29/12/83)	67981.0	67660.0	67335.0	67981.00	18/10	43981.00	2/1
Canada							
Metals & Minls(1975)	5061.00	4957.98	4970.46	5624.60	8/5	4697.47	16/1
Composite(1975)	5492.60	5474.20	5481.00	5492.60	18/10	4739.70	15/1
Portfolio(4/1/83)	2721.40	2710.22	2718.22	2721.40	18/10	2327.39	12/1
Chile							
IGPA Gen(31/12/80)	5516.78	5511.09	5515.36	5804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	452.72	451.25	451.49	452.72	18/10	368.40	2/1
Finland							
HEX General(28/12/90)	2259.51	2236.09	2222.17	2259.51	18/10	1651.67	10/1
France							
SBF 250(31/12/90)	1468.67	1458.69	1452.67	1468.67	18/10	1258.18	2/1
CAC 40(31/12/87)	2185.23	2165.33	2158.52	2186.23	18/10	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	952.86	948.56	949.44	952.86	18/10	818.56	2/1
Commerzbank(1/12/53)	2782.80	2767.20	2768.80	2782.80	18/10	2370.10	2/1
DAX(30/12/87)	2734.82	2716.26	2714.80	2734.82	18/10	2284.86	2/1
Greece							
Athens SE(31/12/80)	929.28	927.15	937.70	1017.98	4/3	872.99	7/8
Hong Kong							
Hang Seng(31/7/64)	12510.05	12438.80	12398.18	12510.05	18/10	10204.87	2/1
India							
BSE Sens.(1979)	3130.21	3112.02	3104.66	4089.26	18/6	2826.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	570.20	568.12	565.78	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2673.60	2661.52	2647.69	2700.04	4/10	2234.61	2/1
Italy							
Banca Comm. Ital.(1972)	624.78	618.61	619.54	674.19	20/5	572.21	27/3
MIB General(2/1/86)	1059.0	1045.0	1050.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21812.38	21423.74	21397.19	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	302.82	300.61	300.35	319.70	26/6	284.48	11/3
Topix(4/1/68)	1615.21	1602.57	1600.90	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2082.43	2068.43	2059.20	2251.48	2/7	1962.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1175.60	1158.42	1156.83	1189.64	30/4	983.18	2/1
Mexico							
IPC(Nov 1978)	(c)	3268.47	3253.01	3433.75	27/8	2736.36	6/3
Netherland							
CBS TtlRtnGen(End 83)	695.6	690.7	690.7	695.60	18/10	539.50	2/1
CBS All Shr(End 83)	408.6	405.7	405.8	408.60	18/10	326.70	2/1
New Zealand							
Cap. 40(1/7/86)	2361.08	2348.71	2325.98	2361.08	18/10	2025.14	7/6
Norway							
Oslo SE(Ind)(2/1/83)	1477.85	1480.38	1477.75	1484.98	15/10	1259.68	30/1
Philippines							
Manila Comp(2/1/85)	3099.73	3061.06	2983.57	3374.40	5/7	2578.97	2/1
Portugal							
BVL 30(4/1/93)	2002.12	2001.37	2005.52	2013.16	9/10	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	509.44	508.23	510.32	610.37	5/2	505.30	14/10
South Africa							
JSE Gold(28/9/78)	1671.9♥	1683.5	1695.1	2030.40	29/5	1348.40	2/1
JSE Indl.(28/9/78)	8262.1♥	8252.1	8250.2	8739.30	25/1	7835.60	30/8
South Korea							
KoreaCompEx**(4/1/80)	830.25	839.73	835.17	986.84	7/5	753.35	28/8
Spain							
Madrid SE(30/12/85)	380.82	376.82	374.77	380.82	18/10	323.75	11/1
Sweden							
AffarsvarldenGen(1/2/37)	2190.1	2164.9	2160.5	2190.10	18/10	1706.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1807.20	1803.07	1802.54	1813.19	15/10	1516.18	17/1
SBC General(1/4/87)	1283.11	1279.42	1278.61	1285.94	15/10	1114.47	26/1
Taiwan							
Weighted Pr.**(30/6/66)	6475.42	6494.34	6551.26	6844.88	5/10	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	946.09	929.61	916.83	1415.04	6/2	905.34	15/10
Turkey							
Istanbul Cmp.(Jan 1986)	81743.6	79719.2	77829.7	81743.60	18/10	38779.30	2/1
WORLD							
MS Capital Intl$(1/1/70)	802.0*	799.3	797.6	802.00	18/10	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1787.73	1771.25	1769.99	1787.73	18/10	1504.40	11/1
Euro Top-100(26/6/90)	1509.85	1499.10	1492.73	1509.85	18/10	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	390.04	389.06	390.07	15/10	344.19	2/1
ING Brngs Emrg(7/1/92)	160.88	159.81	159.91	165.91	4/7	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
Oct	2179.0	2190.0	+23.0	2193.0	2176.0	13,223	26,957
Nov	2184.0	2195.0	+23.0	2195.5	2184.0	319	2,705
DAX							
Dec	2741.0	2740.0	+9.5	2753.0	2733.5	19,492	-
Mar	2759.0	2758.5	+13.5	2768.5	2753.0	342	-
OMX							
Oct	1700.00	1708.25	+21.25	1709.00	1695.75	5,914	26,205
Nov	1706.00	1715.25	+23.25	1715.50	1702.75	1,879	4,586
SOFFEX							
Oct	3805.0	3808.0	+10.9	3808.0	3805.0	3,212	3,383
Nov	3814.9	3812.0	-10.0	3825.0	3807.0	4,351	20,907

** Sat Oct 12: Taiwan Weighted Price 6826.44; Korea Comp Ex 840.80. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 28 Industrials - 264.3, NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Oct 18 - 2727.56 -10.06 † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Oct 18	Oct 17	Oct 16	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6094.23	6059.20	6020.81	6094.23 (18/10)	5032.94 (10/1)	6094.23 (18/10/96)	41.22 (8/7/32)
Home Bonds	102.89	102.87	102.64	106.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2116.42	2101.47	2097.07	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	13.23 (8/7/32)
Utilities	224.57	222.89	221.35	234.00 (12/2)	204.86 (30/7)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 6118.57 (6101.31) Low 6011.49 (5994.72) (Theoretical♠)
Day's high 6094.97 (6065.90) Low 6040.19 (6023.04) (Actual♠)

Standard and Poors	Oct 18	Oct 17	Oct 16	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	710.82	706.99	704.42	710.82 (18/10)	598.48 (10/1)	710.82 (18/10/96)	4.40 (1/6/32)
Industrials♥	839.55	835.40	833.48	839.55 (18/10)	702.07 (15/1)	839.55 (18/10/96)	3.52 (30/6/32)
Financial	75.54	74.91	74.15	75.54 (18/10)	58.67 (10/1)	75.54 (18/10/96)	7.13 (4/9/74)
NYSE Comp.	378.32	376.41	374.53	378.32 (18/10)	321.41 (10/1)	378.32 (18/10/96)	4.64 (25/4/42)
Amex Mkt Val	579.03	577.39	576.52	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1242.46	1241.97	1250.99	1258.10 (15/10)	988.57 (15/1)	1258.10 (15/10/96)	54.87 (3/10/74)

■ RATIOS

	Oct 11	Oct 4	Sep 27	Year ago
Dow Jones Ind. Div. Yield	2.16	2.15	2.17	2.42
	Oct 16	Oct 9	Oct 2	Year ago
S & P Ind. Div. yield	1.92	1.95	1.95	2.10
S & P Ind. P/E ratio	22.13	22.84	22.74	17.68

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Xerox	21,459,200	48⅝	-1¼
WalMart	8,007,800	28⅛	+⅜
Philip Morris	8,007,000	92¼	-5⅛
PepsiCo	5,773,300	30¼	+⅜
Guidant	5,640,100	42⅜	-1½
RJ Nabisco	4,580,400	26¾	-¾
AT&T	4,541,000	39⅞	+⅛
Pharm Upjhn	4,103,000	36¼	+½
Jnsn & Jnsn	3,874,500	51⅞	-¼
M Marietta	3,591,200	21	+½

■ TRADING ACTIVITY

● Volume (million)	Oct 18	Oct 17	Oct 16
New York SE	487.939	478.549	441.396
Amex	18.644	17.902	14.894
NASDAQ	(u)	592.304	561.334
NYSE			
Issues Traded	3,227	3,250	3,238
Rises	1,340	1,412	1,132
Falls	1,038	949	1,217
Unchanged	849	889	889
New Highs	191	197	123
New Lows	28	23	40

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Dec	711.20	715.85	+4.85	716.00	709.85	70,492	182,100
Mar	718.50	722.30	+4.95	722.50	716.30	253	5,000
■ Nikkei 225							
Dec	21550.0	21700.0	+200.0	21840.0	21530.0	24,691	205,386
Mar	21520.0	21850.0	+320.0	21850.0	21520.0	10	12,092

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Friday, October 18, 1996

	Stocks Traded	Closing Prices	Change on day
NKK Corp	11.1m	290	+5
Sumitomo Mtl Ind	7.1m	320	+7
Sumitomo Seika	6.7m	892	+44
Shinko Electric	6.5m	587	+50
Keisei Elect Ry	5.8m	1170	
Mitsui Fudosan	5.1m	1500	+10
Nippon Steel Cp	4.9m	348	+3
Canon	4.5m	2330	+30
Mitsubishi Heavy	4.3m	908	+9
NEC Corp	4.0m	1270	-10

4 pm close October 18

NEW YORK STOCK EXCHANGE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE PRICES

4 pm close October 18

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close October 18

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.
Some ß American prices in last Friday's FT were pre-close.

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AMEX PRICES

4 pm close October 18

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Adv Magn		16	17	15½	15½	15½	
Allin Inc		11	15	2	1 15/16	2	
Alpha Ind	0.05	112	561	6¾	6½	6¾	-⅛
Am Isr Pa	1.04	4	2	38¾	38¾	38¾	+½
Amdahl	0.05	3	1732	10	9¾	9 15/16	+¼
AmExpl ♣		26	429	12¼	12⅛	12⅛	
Ampal-AmA		100	58	5 1/16	5	5	-1/16
ASR Inve	2.00	8	13	19⅛	18⅞	18⅞	-¼
Astrotech		13	75	5	4 15/16	5	
AtlGas A		27	1583	6	5 7/16	5 7/16	-¾
AudioTotaA		1	788	1 3/16	1 1/16	1 3/16	+1/16
AvinsPIDB		46	91	3⅞	3¾	3¾	-⅛
B&H Ocean	0.60	8	11	2	d2	2	
BadgerMr	0.80	16	7	u38⅝	38¼	38¼	-⅛
BiolwT A ♣	0.04	19	162	2 13/16	d2⅝	2¾	-1/16
BATInds ♣	0.88	8	1495	14	13⅞	13 7/16	-11/16
Beard		131	2	2⅝	2⅝	2⅝	
Blks Man x	0.40	27	4	23½	23¼	23½	+⅛
Bio-Rad A		11	57	28⅞	28⅝	28⅝	-¼
Bowmar		10	3	1⅝	1⅝	1⅝	
Bowne	0.36	10	45	23⅜	23¼	23⅜	+⅛
Brascan A	1.04	22	79	18¾	18½	18⅝	+¼
Cambrex	0.13	16	11	33⅜	33¼	33⅜	
Can Marc	0.14	34	49	11⅝	11⅜	11⅜	-⅜
Cntrl FdA	0.01		146	4 13/16	4 13/16	4¾	-1/16
Cominco	0.30	15	16	22¼	22⅛	22¼	+½
CompTch		115	43	11⅝	11¼	11½	+¼
Computrac		112	58	2¼	2⅛	2¼	
Concd FbA		15	5	6⅝	6⅝	6⅝	-⅛
CrossAT A	0.64	14	2337	11¼	d10¼	11¼	+¾
Crown C A	0.40	1	26	14¼	14⅛	14¼	+⅛
Crown C B	0.40	1	35	14⅛	14⅛	14⅛	+¼
Cubic	0.36	19	70	21	20¾	21	+¼
Cybex		3	35	10⅝	10½	10½	+⅛
DI Inds		6	2570	1⅞	1 13/16	1⅞	
Ducommun		15	349	20	19½	19¾	
Eastn Co	0.48	30	4	13	13	13	
Echo Bay	0.07	23	5512	8 1/16	d7 15/16	8 1/16	
Ecol En A	0.32	28	34	8⅛	7¾	8⅛	+½
Edisto Rs		14	5	9⅞	9 13/16	9⅞	+⅛
Epitope		32	351	14⅛	13⅝	13¾	+⅛
Fab Inds	0.70	18	58	28	27⅜	27⅜	
Fina A	2.40	16	27	54¼	53¾	54¼	+⅜
Forest La		18	604	40	39¼	40	+⅝
Frequency		13	29	10⅛	9⅞	9 15/16	-1/16
Garan	0.80	15	62	16¾	16¾	16¾	-⅛
Giant FdA	0.78	17	412	34¼	33⅜	33½	-½
Glatfltr x	0.70	12	1637	18⅝	17⅞	18⅝	+¾
Goldfield		5	53	5/16	d¼	¼	-1/16
HanDir		2	253	15/16	d13/16	15/16	+1/16
Hasbro	0.40	19	3036	39⅛	38⅝	39⅛	+⅜
Health Ch		32	10	1 5/16	1 5/16	1 5/16	
Heico	0.10	9	73	17½	16⅞	17¼	+½
HvenlanA		9	67	6⅛	6 1/16	6⅛	-1/16
InstronCp	0.16	19	11	11¾	11¾	11¾	-⅛
Int. Comm		185	752	7½	7⅜	7 7/16	-1/16
Intermgn ♣		36	252	13½	13¼	13⅜	+⅛
Ivax	0.10	25	17168	17¾	15¾	17¾	+1⅝
Jan Bell		32	6805	2¼	2⅛	2¼	
JTS Corp			1023	3 13/16	3¾	3⅞	-⅛
Kinark Cp		14	12	3 1/16	2 13/16	2 13/16	-3/16
Kirby Exp	0.10	35	3	17⅝	17⅝	17⅝	
KogrEq		9	99	15⅝	15⅜	15⅜	-⅜
Labarge	0.06	29	115	6⅞	6¾	6 13/16	-1/16
Lynch Cp	0.20	14	29	69	66¾	69	+2¾
Maxxam		7	40	42	41½	41⅞	-¼
Media A	0.52	11	281	31⅜	30⅝	30⅝	-¼
Mem Co	0.20	4	9	7¼	7¼	7¼	
Miromedia		0	408	10⅞	10⅝	10⅞	+¼
MitelLd			12	6 7/16	6 7/16	6 7/16	
Moog A	1.00	14	30	20⅜	20⅜	20⅜	
MSR Expl		10	10	¾	¾	¾	-1/16
NatPatDev		4	201	8¾	8½	8¾	+⅛
NY TmA	0.56	23	1416	35¾	34⅞	35⅛	[illegible]
NumacE		112	138	4½	4 7/16	4½	+⅛
NVR		6	59	9	8⅞	9	+⅛
Pegasus G	0.10	99	1267	10⅛	9⅞	9 15/16	-1/16
Perini	0.80	1	97	9	8⅞	9	+1/16
Pittway A	0.33	14	44	46	45	46	
PMC	1.12	12	72	14	13⅞	13⅞	-⅛
RaganBrad		27	2	30½	30½	30½	
SJW Corp	2.22	9	12	40	39⅝	39⅞	
Tab Prods	0.20	12	32	7¼	7⅛	7⅛	+⅛
Tel&Data	0.40	15	521	38⅞	38¼	38⅞	+⅝
Thermedics		35	218	21⅞	21⅛	21⅞	
Thermolns		28	545	34½	33⅞	34½	+⅝
TotPNA	0.30	142	186	10⅛	9½	10	+⅜
TownCntry		4	209	13/16	¾	¾	
Trnton		0	138	u⅞	⅞	⅞	+⅛
Tubos Mex		7	1241	11½	11¼	11½	+¼
UtdFoodsA	0.23	56	18	1 11/16	1 11/16	1 11/16	
UtdFoodsB	0.20	60	40	1 13/16	1 13/16	1 13/16	
US Cellul		17	27	30	29⅞	29⅞	+⅛
ViacomA		118	850	34¾	34⅛	34¼	-¼
ViacomB		117	3242	34¾	34⅛	34⅛	-½
WRET	1.12	17	136	12¾	12⅝	12¾	
Xytronix		3	55	1 11/16	1½	1 11/16	+1/16

FT GUIDE TO THE WEEK

MONDAY 21

CDU holds congress

Germany's Christian Democratic Union, the party of Helmut Kohl, the chancellor, begins its two-day annual congress in Hanover. Mr Kohl, who becomes the federal republic's longest-serving chancellor at the end of the month, is assured of overwhelming support from the 1,000 or so delegates when he gives his keynote speech today. Tomorrow, the congress will debate the party's plans for income tax reform and look ahead to the problems of financing Germany's generous welfare state in the 21st century.

EU parliament in session

The European parliament holds a plenary session in Strasbourg which will include newly elected MEPs from Austria (to Oct 25). On Tuesday, Jacques Santer, the president of the European Commission, unveils its legislative programme for 1997. Dick Spring, the Irish foreign minister, reports on this month's mini-summit in Dublin on Wednesday. Other issues on the agenda include proposals to set up a guarantee fund to finance European film making; free movement of doctors in the EU; and misleading advertising.

Germany floats red herring

Deutsche Telekom publishes the final prospectus for its initial public offering of shares – one of the world's biggest – which is likely to raise about DM15bn (£6.12bn). The document, dubbed the red herring, includes a price range and the discounts for retail investors – probably between 1 and 5 per cent. Later this week, executives set off to drum up demand for the shares, which are likely to be listed on November 18.

Capo v Pentito

Salvatore Riina, the *capo dei capi* of the Sicilian mafia, and 17 others face trial over the murder in 1992 of Paolo Borsellino, the anti-mafia magistrate. The trial in Caltanissetta may bring Riina into confrontation for the first time with Giovanni Brusca, the *pentito dei pentiti*, a top member of the Sicilian mafia who has agreed to give evidence against his colleagues. Mr Brusca, who was reputed to be Riinas' main organiser of violence, is accused of complicity in Mr Borsellino's murder.

Kinkel visits China

Klaus Kinkel, the German foreign minister, begins a four-day visit to China to promote bilateral ties. An earlier trip was postponed because of friction over Tibet.

Public holidays

British Virgin Islands, Guatemala.

The Indian tiger is 'near extinction' following economic liberalisation and an increased demand for tiger parts used in traditional Chinese medicine

Honduras, Hong Kong, India, Jamaica, Kenya, Macau, Somali.

FT Surveys

Germany; UK Executive Cars (UK only).

TUESDAY 22

Tigers near extinction

Economic liberalisation and a rapid increase in the demand for traditional Chinese medicine in the Far East have intensified the trade in tiger parts, according to a report to be published by the Environment Investigation Agency in London. The report says Indian tigers have been poached to near extinction, with the government failing to enforce its own conservation measures and sanctioning industrial encroachment on tiger habitat.

Japan signs military deal

In a small but significant departure from Japan's deep post-war pacifism, it will sign an acquisition and cross-servicing agreement with the US on the mutual supply of military goods and services. This will bind Japan to providing logistical support and non-weapons supplies to US troops operating abroad in peacetime.

WEDNESDAY 23

Queen's Speech

The British parliament returns with the Queen's Speech, which will lay out the government's programme for the last session before the general election. The programme has been trimmed, with some controversial measures – such as the introduction of voluntary identity cards – pushed back for inclusion in the Conservative election manifesto. The main bills are expected to include measures against social security fraud, selection and stricter discipline in schools, tougher sentencing for repeat offenders and primary health care.

Wind farm in Wales

National Power, Britain's largest electricity generator, opens the largest wind farm in Europe, at Carno, Wales. The wind farm, which has been helped by government subsidies for renewable energy, will have a capacity of 33.6 megawatts – enough energy to meet the needs of 25,000 local households.

Canadian Liberals convene

Canada's ruling Liberal Party begins its biennial convention, safe in the knowledge that its high standing in opinion polls and a weak opposition virtually guarantee victory in the next general election, which is likely to be in 1997. Organisers should have little trouble containing divisions over the government's fiscal restraint and its strategy to thwart Quebec secession.

HK human rights concerns

The Geneva-based United Nations Human Rights Committee hears evidence from Hong Kong officials on human rights in the colony. The committee last year commissioned a special report on Hong Kong about the human rights consequences of the reversion to Chinese rule next July. The application and enforcement of international human rights conventions after the changeover is still under discussion. Many in Hong Kong fear China will curb basic freedoms and democratic rights once the colony becomes a "special administrative region".

Trade summit in Harare

The regional trade imbalance will top the agenda when presidents and business leaders in southern Africa meet in the Zimbabwe capital of Harare to try to improve trade and investment co-operation. Presidents Ketumile Masire of Botswana, Robert Mugabe of Zimbabwe, Frederick Chiluba of Zambia and Jose Eduardo dos Santos of Angola will be joined by the South African deputy president, Thabo Mbeki, as well as delegates from Malaysia and the US. Exports from South Africa have flooded its sub-Saharan neighbours since the end of apartheid and the normalisation of its relations with the region.

Saleroom

The actor Michael Caine, who is moving back to the UK and is disposing of the contents of his Los Angeles home, sells some of his art collection at Sotheby's in London. Among them are a drawing by Toulouse-Lautrec (estimated at up to £2,500); a Dali watercolour (up to £6,000); and a Renoir still life of apples (up to £30,000). The most expensive item is a Picasso vase of a nude couple which should make £70,000. Caine's more important acquisitions, of art nouveau and art deco, will be sold on November 1st.

Public holidays

Fiji, Hungary, Thailand.

FT Surveys

Slovakia; Aluminium.

THURSDAY 24

Samper in Far East

On the last leg of a trip to strengthen trade links with Far Eastern countries, Ernesto Samper, the Colombian president, lands in Seoul. Mr Samper is with a large delegation, including two ministers and the presidents of the state oil and coal companies, as well as representatives from the flower, coffee, automotive and banana sectors. Earlier in the week Mr Samper will make the first visit to China by a Colombian head of state, and on Wednesday he goes to Indonesia. In Seoul, the delegation will concentrate on science, technology and training.

Golf

Volvo Masters, Valderrama, Spain (to Oct 27).

Public holiday

Zambia.

FT Survey

Zimbabwe.

FRIDAY 25

Chirac in Middle East

Jacques Chirac, the French president, visits Egypt during a six-day tour to the Middle East. Earlier, he will be in Israel and travel to the West Bank town of Ramallah and the Gaza Strip. The trip reflects France's traditional ties in the region, especially in Lebanon. But Mr Chirac will also try to boost the political influence of the EU, the largest donor in the development of the Palestinian economy. France would like the EU to play a more active role in the Israeli-Palestinian peace talks and in the Middle East peace process.

Public holidays

Grenada, Kazakhstan, Taiwan.

FT Surveys

Large Corporate Properties; Jordan.

SATURDAY 26

Elections in Malta

Voters in Malta go to the polls for an election in which the main parties are starkly divided over the EU. While the ruling conservative Nationalist Party strongly supports membership, the opposition Labour Party believes Malta should not tie itself to Europe to the detriment of relations with its other Mediterranean neighbours.

Clocks go back and forth

Summer time ends in Europe, where the clocks go back one hour between midnight and 3am Sunday. In the US, Canada and Mexico, they also retreat an hour. However, in some parts of the southern hemisphere, including Australia, they go forward an hour.

Horse racing

One of England's top races for two-year-olds, the Racing Post Trophy over a mile at Doncaster racecourse, often supplies important clues to the following season's classic races.

Public holidays

Austria, Nauru, Sri Lanka, Taiwan.

SUNDAY 27

Bulgarians elect president

Bulgarian voters elect a new president – a mostly ceremonial post – amid political and social unrest caused by the socialist government's austerity measures. The front-runners are Ivan Marazov, a socialist former culture minister, and Peter Stoyanov, the main opposition United Democratic Front's candidate. The incumbent, Zhelyu Zhelev, a former dissident who helped steer Bulgaria away from communism but has frequently clashed with the new political leaders, is not running.

Festival of llamas

More than 2,000 llamas, alpacas, vicunas and guanucos are paraded by breeders and artisans at the Second International Festival of South American Camelids, in Puno, Peru. The festival coincides with the legal reappearance of garments made from the hair of the vicuna, recently removed from the list of endangered species. Andean inhabitants have eaten the camelids' tough but tasty meat for centuries. Llama sausages and alpaca salami can now be found, too.

At the speed of light

About four dozen solar-powered cars start a 3,010km rally down the Stuart Highway, which links Darwin on Australia's north coast with Adelaide in the south, as part of the 1996 World Solar Car Challenge. The triennial event is expected to attract entries from about 13 countries. Organisers say the fastest cars can average more than 90 km/hour. Leading contenders may have to slow down in the midday sun to avoid breaking speed limits.

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: Retail sales in Canada are thought to have accelerated in August, as is industrial production in Sweden.

Tuesday: The Confederation of British Industry releases its latest quarterly industrial trends report. Industrial production in France is forecast to have rebounded in August after July's small fall.

Wednesday: Retail sales in the UK are forecast to have fallen a little last month, after what was seen as an unsustainably strong increase in August. The annual growth rate of Swedish retail sales should have slowed a little in August.

Thursday: The Bundesbank Council meets in Frankfurt. Growth in French household consumer spending is predicted to have slowed in September, while industrial production in Spain may have stalled in the previous month.

Friday: The pace of economic growth in the UK is thought to have picked up to an above-trend rate in the third quarter. US durable goods orders are forecast to have rebounded in September after August's fall.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Oct whols'l price indx (1st 10 days)		-0.1%
Oct 21	Canada	Aug retail sales*†	0.4%	0.2%
	Sweden	Aug industrial production**	2.4%	1.7%
Tues	France	Aug industrial production*	0.3%	-0.2%
Oct 22	France	Aug industrial prod excl energy*	0.2%	0.5%
	Canada	Sep consumer price index* non†	0.1%	0.1%
	Canada	Sep consumer price index** non†	1.4%	1.4%
	Canada	Sep CPI excl food and energy non†	1.3%	1.3%
	Canada	Sep wholesale trade*†	0.3%	0.0%
	US	Sep export price index		-0.1%
	US	Sep import price index		-0.2%
	Italy	Oct consumer price index cities*††	0.4%	0.3%
	Italy	Oct consumer price index cities**††	3.3%	3.4%
	US	Sep Treasury budget	$30.0bn	-$41.8bn
Wed	Aust'lia	Q3 consumer price index, headline***	0.4%	0.7%
Oct 23	Aust'lia	Q3 CPI, underlying***	0.6%	0.8%
	UK	Sep retail sales*	-0.1%	1.0%
	UK	Sep retail sales**	3.9%	4.4%
	Canada	Sep leading indicators*†	0.4%	0.4%
Thurs	Aust'lia	Q3 AWOTE (wages)	0.9%	1.0%
Oct 24	France	Sep household consumption*†	1.8%	3.0%
	US	M1 week ended Oct 14		-$16bn
	US	M2 week ended Oct 14		$10.2bn
	US	M3 week ended Oct 14		$19.7bn
	Spain	Aug industrial production**	0.0%	4.0%
	Mexico	Oct 2 weekly consumer price index*		1.04%
Fri	Japan	Oct consumer price index, Tokyo**	0.0%	-0.4%
Oct 25	Japan	Sep consumer price index, nation**	-0.2%	0.2%
	Japan	Sep BoJ corporate services price**		-0.7%
	Japan	Sep BoJ corporate services price		-0.1%
	France	Sep consumer price index final*		0.4%
	France	Sep consumer price index final**		1.6%
	France	Aug trade balance†	FFr9.0bn	FFr11.1bn
	UK	Q3 gross dom prod***††	0.8%	0.5%
	UK	Q3 gross dom prod**††	2.4%	2.2%
	UK	Sep visible trade excluding EC	-£500m	-£499m
	US	Sep existing home sales	4.10m	4.13m
	US	Sep durable orders	1.5%	-3.2%
	US	Sep durable shipments		0.3%
During the week...				
	Germany	Jun retail sales, real**	-1.0%	-3.0%
	Germany	Jun retail sales*†	0.0%	-1.0%
	Chile	Sep trade balance		-$267m
	Germany	Sep import prices*	0.3%	-0.2%
	Germany	Sep import prices**	-0.1%	-0.3%
	Japan	Sep supermarket sales**		-0.2%
	Japan	Sep department store sales**		1.2%
	Germany	Oct cost of living*†† (west)	0.0%	-0.1%
	Germany	Oct cost of living**†† (west)	1.5%	1.4%

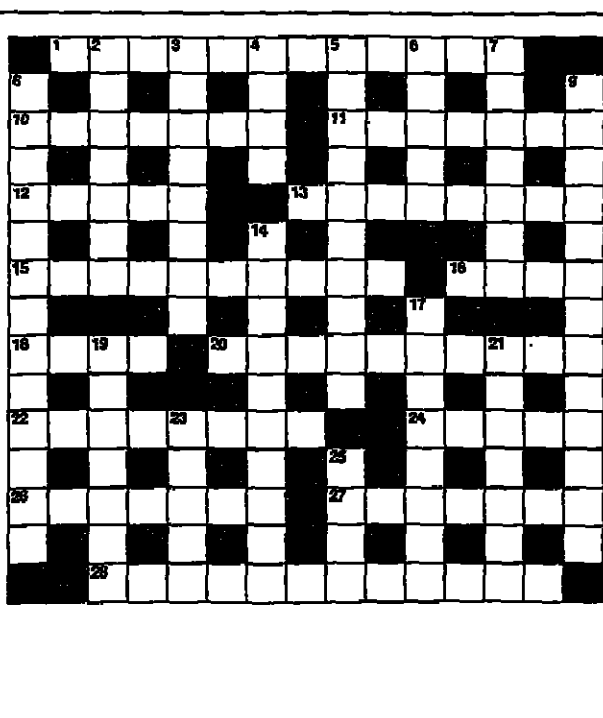
*month on month, **year on year, *** qtr on qtr, †seas adjusted, ††prelim Statistics, courtesy MMS International.

ACROSS

1 Burglar giving theatre audience a wave (12)
10 Can forget a cat after once put out (7)
11 Herb returned on time or before (7)
12 Italian banker nipped back to get ruler (5)
13 Name relief worker in bed showing disdain (8)
15 Not loving cooking can ruin Tom (10)
16 Silver Street's first party for men only (4)
18 Record obtained thanks to exercises (4)
20 Paid a South American sailor in bones! (10)
22 To restore confidence to users are specially adapted (8)
24 A brown one is found among the back copies (5)
26 Not at all against returning article (7)
27 Around mid-morning a fool wanted port! (7)
28 They're instead of assorted pearls, a joiner interrupts (12)

DOWN

2 No top doctor has to live in for a month (7)
3 Sly student overlooked revising modern set of symptoms (8)
4 Born at hospital somewhere in Avon (4)
5 Careful but unusual claim one firm accepted (10)
6 Took the attitude of a religious person? (5)
7 Now send round to be let in again (7)
8 Cursing turret requiring renovation and rebuilding (13)
9 First-class they may be but they're gonna get licked! (7,6)
14 Green train runs when there's gaps in continuity (10)
17 Engineer tests a new version in case (8)
19 Salesman returns carrying final coat (7)
21 Shrewd fool that is not without love (7)
23 Finding some task important don't do it properly? (5)
25 Putting 1,000 in envelope addressed to yourself is wise! (4)



MONDAY PRIZE CROSSWORD

No.9,204 Set by GRIFFIN

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday October 31, marked Monday Crossword 9,204 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 4. Please allow 28 days for delivery of prizes.

Name..

Address..

Winners 9,192

F. Dennett, St Helens, Lancashire
A.C. Berry, Camberley, Surrey
R. Lennard, Aston Clinton, Bucks
A.G. Lockhart, Stanion, Northants
T.E. Morgan, Kings Heath, Birmingham
C. Vye, Carshalton

Solution 9,192

Tim Jackson

Round up the junk mail cowboys

If the Internet is the Wild West, Sanford Wallace must be one of its most infamous cowboys. Wallace, a businessman in Pennsylvania, runs a company, Cyber Promotions, which offers to distribute advertisements to 100,000 people by e-mail for "less than the cost of 10 first-class stamps".

To advertisers who are used to paying 10 cents a name just for mailing lists, then paying postage in order to send out their junk mail, this sounds too good to be true. It is. The trouble with unsolicited e-mail is that while some people trash it, others get very angry. Unsolicited e-mail or newsgroup postings are known on the Net as "spam", and "spammers" are viewed by many people online as only marginally better than child pornographers and terrorists.

At least a dozen Web sites are devoted to the aim of orchestrating campaigns to punish spam. Among the remedies suggested is to call up companies like Cyber Promotions on their 800 numbers to explain, at their expense, why the sending of unsolicited mail is so irritating. Most people choose to hit the "reply" button and send back an abusive message.

If only 10 per cent of recipients do this, an outbound mailing to 100,000 names will produce 10,000 angry replies: enough to clog up a mailbox for days on end.

So people like Wallace have to live in a state of electronic hiding, like owners of *samizdat* printing presses in the former Soviet Union. When they send out unsolicited mail, they generally use a false address. They also keep changing their Net service providers (ISPs) in order to stay one step ahead of their pursuers.

Recently, however, America Online, the world's biggest online service, has entered the junk wars. After Cyber Promotions sent e-mail to 850,000 of its customers, AOL hit back by saving up all the mail to invalid addresses and sending it back to Cyber Promotions in one go. The result was a server crash at Cyber Promotions' ISP, which promptly terminated its contract with Wallace to avoid further trouble.

But Wallace would not play dead; he sued AOL for unfair competition, denial of free speech – and other things. AOL then counter-sued. The case is still before the courts. Judging by the 200 pages or so of papers I've read, it has become bafflingly complex.

To anyone outside the US, it seems clear the issue raised by junk e-mail is money. While phone calls from salesmen during dinner are irritating, the recipient of junk e-mail often has to spend money downloading it to discover it is not worth reading. That makes people really angry.

Some have proposed legal responses, such as an outright ban or a requirement to label all unsolicited e-mail so recipients can reject it in advance at no cost. But the problem may create its own solution. One company, Junkbusters.Com, has a Web site that provides a legal "offer" which Net users can send to junk mailers, intended to place them under a legal obligation to pay for the reading of every piece of junk they send in future.

Recognising that advertisers want to use e-mail but Net users are not willing to read junk uncompensated, a company called CyberGold has built a system that allows people to sign up as willing recipients of junk mail, in certain categories, for payment of 50 cents or more for every piece of junk they read.

The service is pitched to advertisers as convenient, as it saves them the trouble of trying to figure out what kind of content to sponsor in order to reach their audience; and as cost-effective, because they do not pay for a single recipient who does not read their message. To make sure advertisers get their money's worth, readers have to prove that they have read the ads attentively by answering quizzes.

When it is launched shortly, the service will also allow people to sell their postal addresses to advertisers for about $8 (£5.10) a time. Payments will be in tokens with the Wagnerian name of CyberGold, redeemable against a range of products and services.

It may sound nutty, but the company, in Berkeley, California, has the backing of two of the leading luminaries of America's high-tech establishment: Regis McKenna, one of Silicon Valley's leading PR strategy gurus, and Jay Chiat, co-founder of the Chiat, Day advertising agency.

CyberGold raises the wonderful possibility that Net addicts may be able to turn their time-wasting into a source of income. Better still, it may provide a market solution to the problem of the Wild West cowboys. Once advertisers start to discover that they get better responses by paying consumers to read their messages, they may give up the cruder, more irritating forms of junk e-mail.

tim.jackson@pobox.com

Gates casts his lines for a Net profit

Geoffrey Wheelwright in Seattle and **Louise Kehoe** in San Francisco map online markets

Microsoft will next month re-launch the Microsoft Network (MSN) as an Internet-based information, shopping and entertainment service, carrying on a long tradition of hitting the mark with the second or subsequent releases of its products.

The first version of MSN, introduced a year ago, was based on proprietary technology. Users needed Microsoft software, while information providers – predominantly media companies – had to format their content using special Microsoft tools.

But the rising popularity of the Net quickly convinced Microsoft that it needed to change course. The company has now revamped MSN. Rather than competing with the Net for attention and users, MSN is now part of the global network.

All Net users will be able to view portions of MSN free of charge. Paying subscribers will be provided with a new "viewer" program that gives them access to a broader range of features.

The main difference that MSN's existing 1.6m subscribers will notice when the service goes live next month is expansion of content. Among the new features of MSN 2.0 is Expedia, an online travel booking service being jointly launched with American Express. There will also be an investment management service, Microsoft Investor, for trading stocks online and tracking markets, and an online shopping mall called The Plaza. Microsoft has also announced an ambitious plan to offer localised online city-specific entertainment magazines, initially in the US.

Microsoft boasts that the new service will "redefine what it means to be online". For example, MSN will feature "Webshows" organised into six television-style "channels". The Webshows range from the lowbrow "15 Seconds of Fame", which gives members a chance to offer stories about important life events such as "the first time I got drunk", to more philosophical shows such as Retrospect 360 Degrees, a multimedia view of topics such as "history of the future". Other Web shows include Star Trek: Continuum and Entertainment Tonight.

There will be news from the MSNBC, a joint venture with NBC television. "Our goal was to create a network that is easy to use, well produced, and makes sense of a new medium to our audience," says Bob Bejan, MSN's executive producer.

Market analysts see MSN as a direct challenger to AOL, CompuServe and Prodigy as well as to popular Net-based services such as those operated by newspapers, magazines and online entertainment organisations.

Last month AOL announced marketing initiatives aimed at "building consumer loyalty, increasing retention, and differentiating brand attributes".

Bill Gates, Microsoft's chairman and chief executive, insists however that he is not out to steal subscribers from established services such as AOL. His goal, he says, is to expand the market for online services.

"The day I read he [Steve Case, chief executive of AOL] has 10m subscribers – that's not a bad day," says Gates. "It means online service subscriptions are doing very well."

MSN is, nonetheless, aggressively priced. The service, including unlimited access to other Net sites, will sell for $19.95 (£12.70) a month in the US. Such "flat rate" fees are attractive to avid online fans but are so far not available from services such as AOL, which charge by the hour.

Mark Mooradian, a senior analyst at Jupiter Communications, a New York Net consultancy, is sceptical about Microsoft's claim that it simply wants to expand the online market. He sees Microsoft winning subscribers from other Net service providers (ISPs), including AOL.

Mooradian was surprised, he said, that Microsoft's announcement of MSN 2.0 has not yet prompted price cuts by AOL. The market leader may believe that it does not have to respond to MSN because it is offering a wider range of content, he speculated.

But AOL and other online services may yet be forced to adjust their pricing, because Microsoft will soon start a $100m marketing blitz including TV, radio and print.

That is still well below AOL's $400m a year budget for advertising. But Microsoft has many "free" opportunities to promote its new online service such as the continued presence of the MSN logo on the Windows 95 desktop.

Jupiter predicts that Microsoft will at least achieve its short-term goal of doubling the number of subscribers to MSN during the next 12 months.

Microsoft says that it does not expect to make money on the service for at least three years. In the longer term, however, the company believes that annual revenues of about $13bn to $15bn will be generated on the Net by 2000, and it is aiming to get 10 per cent of that business.

Perhaps Microsoft's greatest strength, however, is its ability and determination to stick with a project until eventually it creates a winning product. The only question about MSN is whether it will be version two, three or four that takes the market by storm.

Cyber sightings

By Stephen McGookin

• Wall Street Research Net (www.wsrn.com) has a wide-ranging list of links to markets, stocks and economic information, as well as business news and US government data.

• Carlson Online (www.fin-info.com) is a good source for Canadian public company investor information. There are press releases and stock charts for companies on the Toronto, Montreal, Alberta and Vancouver stock exchanges.

• Volvo's new site (www.volvocars.co.uk) promises much but seems to be unnecessarily Frames-based. It has more information about Volvo cars than you might ever want, but you can win a mountain bike by telling them how good it is. Virtual Showroom (www.virtual-showroom.co.uk) made its debut at the Birmingham Motor Show last week: a no-nonsense interactive catalogue of new and used cars across the UK. It has a nice search facility which covers dealer networks and allows users to escape the hard sell.

• Legal Tools (www.legal-tools.com) describes itself as a virtual law office, with discussion groups on aspects of the US judicial system, including computer law and intellectual property and more common topics. The keyword search facility seemed to be permanently out, though.

• Asian Advertising and Marketing magazine (www.asianad.com) may be a worthwhile reference point if you're doing business in that part of the world. A nicely designed site with several interesting articles and a special focus on business media, as well as a sample of its country-by-country research briefings, downloadable in Adobe Acrobat format.

• The Florida-based International Association for Electronic Commerce Professionals has put up a site (www.aecpti.com) where it plans to build a membership roll and offer job listings and general business info in this fast-evolving sector.

• The US Department of Energy's Transportation Technologies site (www.ott.doe.gov) is handy if you are involved, even peripherally, in urban transport planning or technological development of vehicles. Find out all about the Hybrid Electric Vehicle project and run a fuel economy simulator exercise.

• Finally, the most practical non-business site I've seen for a while is link-it's UK TV Guide (www.link-it.com/tv). It lists what's on terrestrial television each evening and links to pages for some of the shows.

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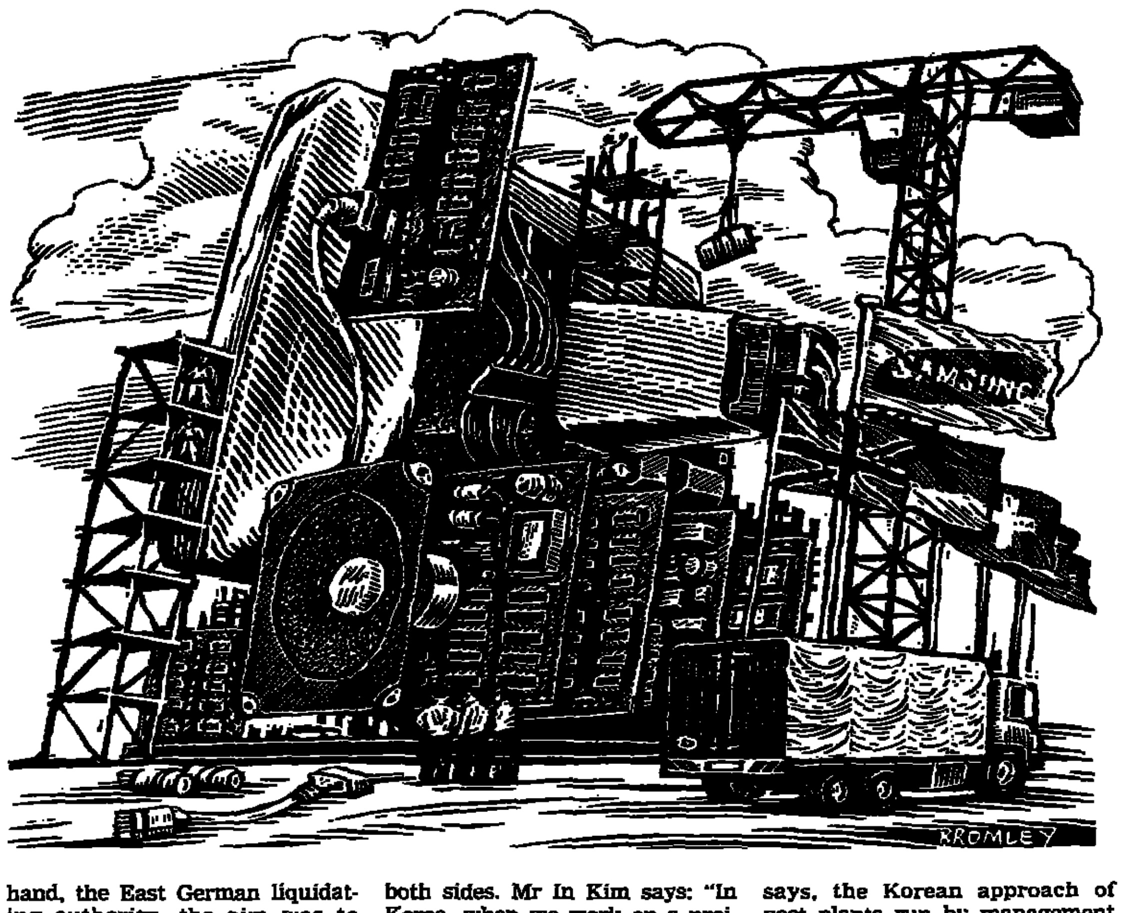
MANAGEMENT

The sum of its European parts

Tony Jackson looks at how Samsung has adapted the Korean approach to its new markets



The stampede of South Korean companies into Europe is gathering pace. Daewoo is poised to take over Thomson's consumer electronics business. Hyundai is to build a £2.4bn chip factory in Scotland. Samsung is in talks to buy Fokker, the Dutch aircraft-maker.

While the motives of the Koreans have been much discussed, another question is more elusive. The range of their investments is enormous, from microchips to earthmoving equipment. In many of those markets, only a handful of European manufacturers still compete. Why can companies from the other side of the world hope to succeed where the locals have failed?

Just this question is raised by Samsung, the biggest of the Korean conglomerates. In 1990, Samsung manufactured very little in Europe. It now makes semiconductors and computer monitors, microwave ovens, refrigerators, TV sets and VCRs, excavators, watches and cameras. Its future plans include air-conditioning equipment and vacuum cleaners, and perhaps personal computers and mobile phones.

In the past six years, Samsung's strategy has changed radically. At the outset its investments were driven by the threat of anti-dumping measures from the EU. By 1993, however, it had drawn up a European master plan. This forms part of a group-wide strategy which lays down that by the end of the decade, for instance, 70 per cent of Samsung's global production in electronics should be outside Korea.

Talking to Samsung executives in Europe, certain aspects of the plan recur. First comes brute volume of production. Mr Sang-Jin Park, president of the Spanish operation, says: "Our starting point [in 1990] was rapid quantitative growth, to achieve scale economies. From this year, we aim at qualitative growth."

With that comes a heavy emphasis on vertical integration. Samsung's biggest single strength is in manufacturing technology. It therefore aims to control most, if not all, of the elements of production.

The quantitative targets are punishing. Samsung's Wynyard plant, on Teesside in the UK, will make just under 1m computer monitors this year. Next year's target is 1.6m to 2m. Its excavator plant in North Yorkshire will make 350 units this year. The target by the end of the century is 1,500.

Samsung supplies 10 per cent of the European market from its Berlin TV picture tube factory. By the end of the century it aims at 15 per cent. At its Barcelona plant, where it makes VCRs, 1996 sales of $330m are planned to double by the next century.

At this point, certain clichés about the Korean conglomerates come to mind: that they are obsessed with volume at the expense of profit, that they rely on cheap finance, and that their chief concern is to copy each other.

Samsung executives do not deny taking a long-term view of profitability. However, they insist that profit targets are set down from the outset. Mr In Kim, president of the Berlin operation, says that when the business was bought in 1993 from the Treuhand, the East German liquidating authority, the aim was to achieve a post-tax profit within three years. In the event, growth in the eastern European market for TV sets has proved disappointing, and the target has shifted. "But if we had thought we'd lose money in the future", he says, "we wouldn't have come here."

As for finance, Korean interest rates are much higher than they used to be. Samsung says its European investments start life with an average of 30 per cent equity funding from the Korean parent. The rest is funded locally.

On the charge of copying Korean rivals, Samsung is politely dismissive. Mr Shin-Jae Kim, director of European strategy, says "we used to study our Korean competitors' moves in great detail, but not any more. We don't rate Hyundai and Daewoo as the competition. Our aim is to be a global company. The companies we try to compete with are above their level, such as Sony and Philips."

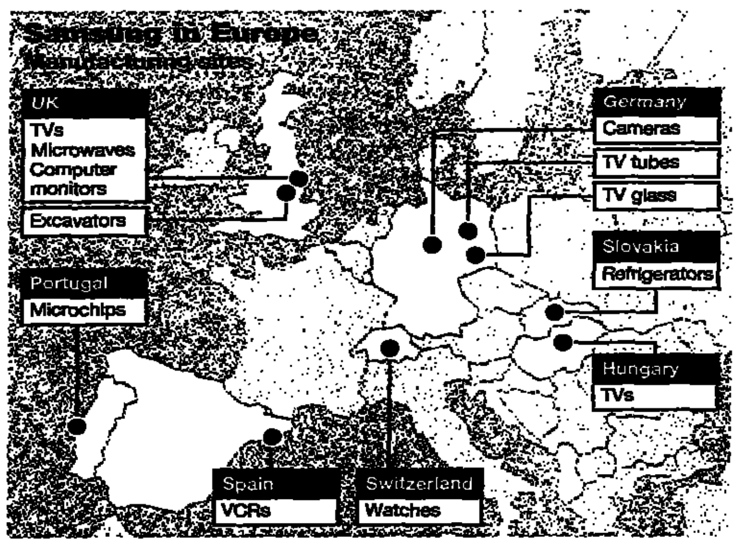
The central question remains: how can Samsung, with its vastly different cultural background, make a success of running businesses across Europe? More specifically, what kind of management structures does it put in place in its European operations?

Across Europe, Korean and local managers agree on one point. The aim is to produce a synthesis: a mixed style of management, taking the best from both sides. Mr In Kim says: "In Korea, when we work on a project, we ask how well the team is working. Here [in Berlin], individual ability is much higher, so the approach is more individual. Each concept has its strong and weak points."

One weak point, it seems, is Korea's traditional autocratic approach to management. Mr John Harkness, plant director of the North Yorkshire excavator factory, says: "Samsung is a huge company, with a huge bureaucracy: and yes, it's Korean. In the past its tendency was autocratic, but that's something the company is aware of and has discussed openly." In particular, he says, the Korean approach of vast plants run by management hierarchies is ruled out. Instead, the management structure is flat, and authority devolved.

At the Wynyard electronics plant on Teesside, there is no executive car parking, and management and workers share the same cafeteria. Everyone clocks in, including the Scottish managing director, Mr Danny O'Brien. There are no trade unions.

Creating an indigenous management style is important for another reason. As part of its objective of moving production from Korea, Samsung has ambitious targets for making its European operations self-sufficient.



An important motive is the need to respond fast to market changes. Mr O'Brien says: "It takes 45 to 50 days to move product from Korea. The response of the supply chain is critical to our success. The supply chain is also the biggest single element of our cost."

In the master plan, self-sufficiency comes in three distinct phases: people, materials and technology. Wynyard has 1,200 employees. Only 17 are Koreans, and the number is falling. For materials, Wynyard's colour TV manufacture takes 75 per cent of its supplies from Europe. For microwave ovens and computer monitors, the figure is only between 25 per cent and 30 per cent, but is due to climb to between 75 per cent and 80 per cent in the next 24 months.

Next comes self-sufficiency in technology and design. Wynyard, Mr O'Brien says, already has its own TV technology. In microwave ovens and computer monitors, it has engineering capability. The design of microwave ovens and computer monitors still comes from Korea, but will be transferred to the UK in the next 24 months to 36 months. In TVs, the mechanical design of the chassis is already UK-based, and electronics design will be transferred next year.

This all sounds perfectly logical. But what about Europe's notoriously high labour costs? In the extreme case of Germany, where Samsung's two main plants are in the former communist east, this is clearly an issue. In Berlin, total wage costs are $27 (£17.40) per hour. In Barcelona, the figure is between $13 and $14, and in Wynyard, $9 to $10. In Samsung's Korean operations the average figure is $10, and in Malaysia it is $3.

In Berlin, some of this is offset by productivity. According to Mr Kim, the plant produces 20 TV picture tubes per head for Korea's 15 and Malaysia's 10.

Quality still lags behind. Yield rates are at only 90 per cent of Korean levels. However, Mr Kim says, three years ago they were at only 70 per cent, and he aims to match Korea within two years.

In Spain, the picture is markedly better. The Barcelona plant claims to have the highest productivity in VCR manufacture anywhere in the Samsung group – some 5 per cent to 7 per cent higher than the nearest competitor. The defect rate of about 3 per cent is apparently similar to Korean levels. But then, the Barcelona plant began life as a greenfield site, as did Wynyard. The Berlin factory is more typical in one important respect: it was bought on the cheap, as a concern that was in effect bankrupt. So was the German TV glass factory in Brandenburg. The Rollei camera business, bought last year, had been bankrupt in the 1980s. Fokker, which it hopes to buy, went bust in March. Even the North Yorkshire factory now housing the excavator business was bought from the receiver.

On the same principle, Daewoo is buying Thomson's lossmaking consumer electronics business. In other words, Koreans work on the explicit assumption that they can succeed where Europeans have failed. It all sounds uncomfortably like arrogance: but it is in everyone's interests that they should be right.

'The main difference having a son as a partner is that you can't sack him'

PARTNERS

Clinton Cards

Don Lewin, 63, founded Clinton Cards in 1968. His son, Clinton, 35, became a partner on leaving school at 16. They now have 490 shops throughout the UK and an annual turnover of £110m. Next month, Don receives an OBE for services to the greetings card industry.

Don: "It was Clint's headmaster who told me he wanted to leave school and join the business. He wasn't interested in working for anyone else, as I'd suggested, so he started as a sales assistant. I've worked in every job in the company and I wanted Clint to do the same.

He's got a flair for the products which comes from following me around as a young lad of 14. He's made mistakes which we needn't have made, but then that's part of business – you don't always get it right. He once ordered too much merchandise from the Far East and by the time it arrived, two months later, it had missed the mark. When I started out I couldn't afford to make mistakes because every pound counted.

We don't always agree, but that's true of any business partnership. The main difference in having a son as a partner is that you can't sack him. He tends to want to run before he's walked, whereas I like to take a bit more time over decisions. I was a lot like him at his age, which is probably one of the reasons we disagree a lot.

I'm amazed at how much he gets around: one day he's in Scotland, the next day Devon. We have 4,000 staff, yet Clinton works harder than any of them. He's totally dedicated to the business which makes me very proud. If I had a criticism it would be what any father would say of their son: he should listen a bit more to his Dad."

Clinton: "Like a lot of sons I wanted to be around Dad, except he did retailing at the weekends instead of DIY and it became infectious.

Working with him isn't always easy. It can be difficult and frustrating, yet at other times it's enormously enjoyable. It's mixed emotions: I don't want to defy him because he's my father, but in business that sometimes can't be helped. I know I push him to the limit, whereas I wouldn't do that if he wasn't my Dad. He's certainly not easy to persuade so I tend to keep nudging him if there's a line I want to introduce which he isn't sure about.

What was unacceptable humour in his day is now part of our life and language today. Although our tastes may differ, we wouldn't sell anything that was offensive.

He's Gemini, so there are two sides to him: fun and grumpy. He's straight to the point, some might say blunt, but it's good to let people know how you feel. It also makes him an excellent negotiator.

Dad's wisdom and my youth have been a good combination for moving the company forward. I'm sure he's pleased that I joined the business, but there are times when I think, perhaps not. Ultimately it's what he wanted. He's worked very hard and achieved a lot, so he should relax more than he does and not involve himself in the little things that wind him up. He's a good, interesting guy to know, but there are times when I wish he'd chill out a bit."

Fiona Lafferty

Banker without a care in the world

Lucy Kellaway

Open letter to the chief executive of the Co-operative Bank.

Dear Terry Thomas,

What a brave man you are! If all bankers – nay, all businessmen – were as ethical as you, what a happy world this would be!

I keep a copy of your annual report on my bedside table alongside my recycled jar of Body Shop Vitamin E Night Cream. Those pictures on the front cover *of naked smiling African chil*dren, and of sheep gently grazing on the unspoilt fields are really moving. They speak volumes about just how much you care *about the world*.

But it was the open letter that you sent to the heads of all British banks last week that has finally made me pick up my pen *and write this open reply to you.* I'm sure that all those s***s at Midland, Lloyds, etc have been too busy making money for their shareholders all this time to realise that landmines were dangerous. So well done you, for telling them!

I'm ever so glad that the Advertising Standards Authority has *finally seen the light* and allowed you to publish the ads that make your rivals look little better than Saddam Hussein. I'm impressed that you put aside so much valu*able management time* – that you otherwise might have wasted on your own staff and customers – to go snooping on Midland etc.

Yet the part of your letter that *brought tears to my eyes* was when you asked the banks "to put commercial rivalry to one side in the name of humanity". That really makes sense to me!! I did have one disloyal thought: that it was commercial rivalry that caused your sudden interest in landmines in the first place, but I have banished that idea as unworthy.

With endless admiration,

Lucy Kellaway.

PS My friend says your animal *testing ads that are all over Lon*don at the moment are another example of your clever, if cynical, marketing tactics. She says she's quite happy with First Direct, which is efficient and polite, and not destroying the world any more than the rest of us. But I take no notice. She's always been *a clever clogs!*

Last week was a memorable one *for women in business and* finance. Marjorie Scardino made news by becoming chief executive of Pearson, while Mary Walz, who was sacked from Barings for *her role in the bank's collapse*, also made news when she claimed the £500,000 bonus she was promised the day before the bank fell.

The first has covered herself in glory; the second has met a more mixed response. Yet both have done things that women have either never done before or are *not supposed to do. Scardino is* the first woman to be made chief executive of an FTSE 100 company; Walz was alone among the largely male sacked Barings exec*utives to have the stomach* (or the gall) for a public fight. Not much sign there of the softer feminine management style we are always hearing about.

Scardino may be evidence that the glass ceiling no longer exists; Walz, that women can be even more pushy than men. However both are American, and they do *things differently over there. In* Scardino's case, American professional women have been climbing the ladder a bit longer, and are just a few rungs ahead of us. *And as for Walz, being American* means being more litigious. The approach may be alien to us, but it can get results. Just look at the bounty that fell on her country*man John Clark last week.*

Sextant, the latest bit of manage*ment software*, is designed to help companies improve their business strategy. I felt lukewarm about this product until I saw that it was being marketed *as an alternative to hiring a man*agement consultant. This is a stroke of genius by its creators, Ashridge Management College and software house, Softa. *Expressed* thus, the £7,500 that the package costs looks like a real bargain.

The reading matter a company displays in its reception is usually revealing. It says something both about the company and about how it views its clients. The standard corporate fare is part show-off, part advertising: a selection of glossy corporate literature nestling alongside the FT and The Economist.

Not, however, at the Cabinet Office. A colleague visiting there recently was surprised – though not displeased – to find a choice of Cosmopolitan, Marie Claire and Elle.

Reading about women's erogenous zones is given a certain extra something in those surroundings.

BUSINESS EDUCATION

Pick the best

Britain's business schools have voted to introduce a discriminatory accreditation system to distinguish between the best and the worst master of business administration (MBA) courses.

The move follows mounting pressure from prospective students and companies who often find it impossible to choose between the 110 or 120 courses now on offer.

The move is a personal triumph for Chris Greensted, director of Strathclyde graduate business school, and the new chairman of the Association of Business Schools, the trade association which voted in favour of accreditation at its annual general meeting last week.

However, delegates voted to look again at the details of the accreditation system which will be put into place by the association in conjunction with the Association of MBAs. This could delay the introduction of the scheme.

DB

Della Bradshaw charts an innovative alliance between school and company

A meeting of minds

In the first strategic partnership between a university business school and a corporate university, Boston College's Carroll School of Management and the Arthur D Little School of Management, also in Boston, have announced a merger of many of their postgraduate classes and their intention jointly to offer shorter executive courses.

The partnership could be just the first in its class. By the year 2000 one-third of corporations could be granting their own degrees in partnership with universities, according to findings from ADL.

Under the ADL/Carroll scheme, between 50 per cent and 70 per cent of the masters classes will be merged, says John Neuhauser, dean of the Carroll School. This will bring economies of scale for the business schools. But Neuhauser believes there will be numerous advantages for Boston's students as well.

"ADL have a much better international outreach," says Neuhauser. "We have nowhere near that access to market." Neuhauser hopes that in future all his students will spend time overseas during their studies.

There will also be a better mix of students in the classroom – Carroll's students are largely from the US while ADL's are almost entirely from overseas. And students will be able to choose from a wider range of elective (optional) courses.

Neuhauser believes the two schools have differing strengths – ADL is good at information technology while Carroll is good at finance.

Although Carroll's 90 faculty are still cautious about the deal, Neuhauser argues that the access to overseas work and to an increased number of short courses – the ADL school has recently been given the contract to do all the in-house training for Arthur D Little worldwide – are powerful persuaders.

For ADL, the alliance strengthens the school's hand in its move to become a more mainstream business school. It has been offering a masters programme – though not an MBA – since 1973 and has recently become the first non-traditional business school to be a pre-candidate for accreditation by the American accreditation body, the American Assembly of Collegiate Schools of Business.

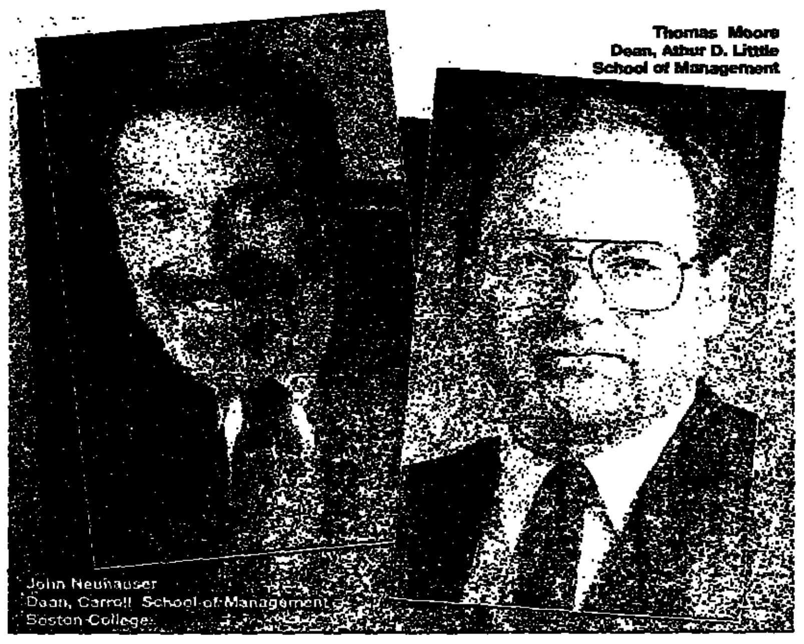
"We are the only corporate university in the US that offers a degree and the only consultancy to have a business school," says dean Thomas Moore.

Moore's school has also filed to become a not-for-profit organisation although, as he is quick to point out, "there's a difference between being a 'for profit' organisation and being profitable. Certainly ADL has subsidised the school for the last decade."

The not-for-profit status should be in place by January, which will enable ADL to attend many of the recruitment fairs for management students. "In the past we've had one hand tied behind our back when recruiting top students," says Moore.

Moore says ADL has much to bring to the merger party. "We have insights and tools that a traditional business school does not offer, such as managing innovation and new product creation."

Neuhauser predicts that any problems will not be with the strategic issues but with the day-to-day ones, such as ensuring that ADL students can register on courses at Boston College even though they are not students there. "There'll be someone writing software at three o'clock in the morning on that one."



Thomas Moore
Dean, Arthur D Little School of Management

John Neuhauser
Dean, Carroll School of Management
Boston College

NEWS FROM CAMPUS

The battle of the old university ties

The Judge Institute at Cambridge University will offer a 12-month version of its MBA course from October 1997. Its present MBA is a 21-month sandwich course.

Judge faces increasing competition in the UK MBA market, notably from the management school at its old rival, Oxford, which began its MBA course this year.

Judge: UK, (0)1223 337051

Executives in Israel feel the crunch

The Kellogg school of management at Northwestern University has got together with the Leon Recanati graduate school at the university of Tel Aviv to offer an executive MBA.

The two-year programme begins this month and is intended for executives in mid-career. Managers from Egypt, Israel, Jordan and Palestine have enrolled.

The course will be taught largely in Tel Aviv but one module will take place at Kellogg.

Recanati: Israel, 3 640 8521

The latest way to strike a deal

The Columbia business school in New York has announced the opening of the Dow Jones Telerate trading room which provides students with a simulated trading environment for hands-on use of market data feeds.

While the facility itself accommodates 10 users, the school's local area network has been configured to enable students to to get access to the trading system through their laptops.

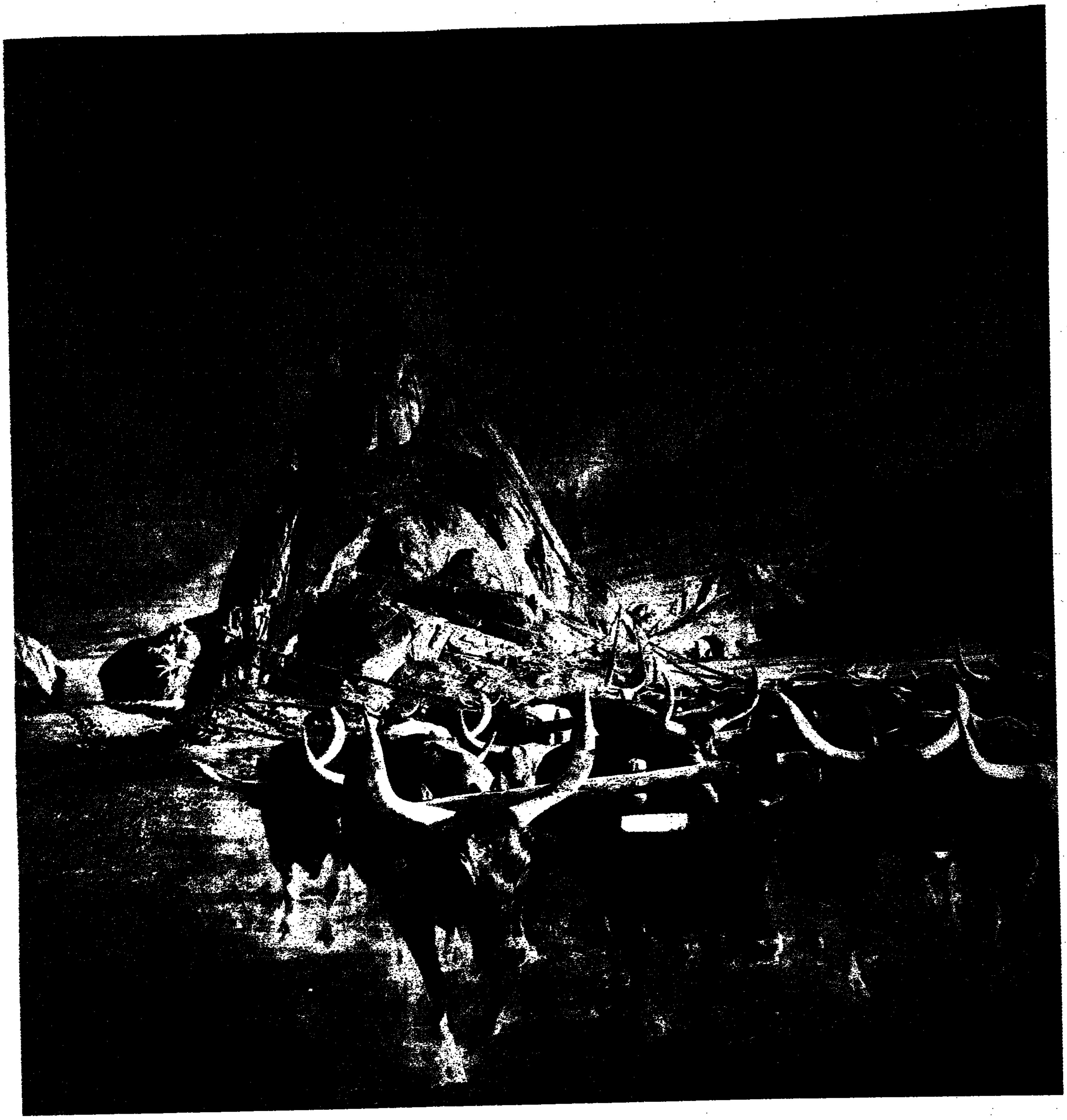
So far two courses have been designed to take advantage of the trading room system: the first in futures markets; the second in debt markets.

Columbia: US, 212 854 8162

Kirby gets the top job at Middlesex

Middlesex University business school in London has appointed David Kirby as dean and pro vice-chancellor. Previously he was professor of entrepreneurship at Durham.

Middlesex University: UK, (0)181 362 5000



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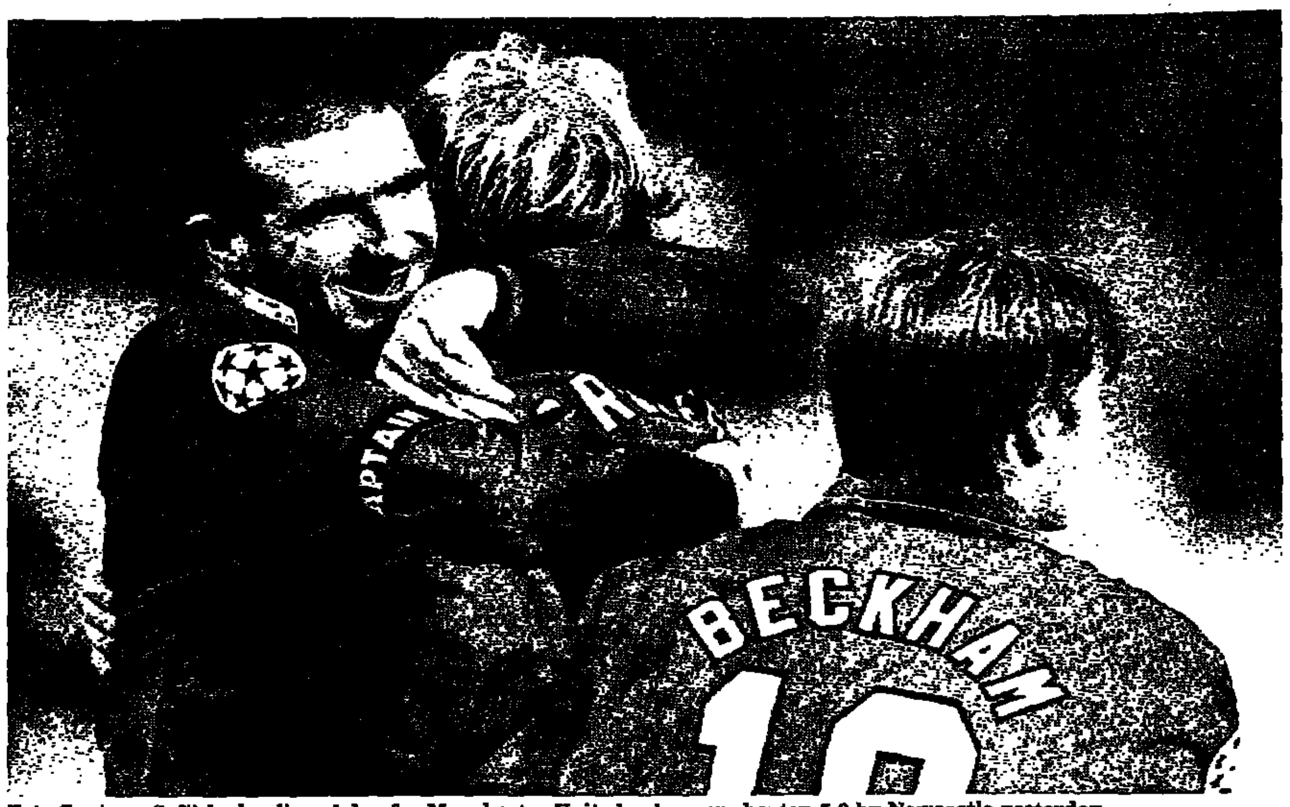
Michael Thompson-Noel · Sport

Not everything rosy at Manchester United



Eric Cantona (left) had a dismal day for Manchester United, who were beaten 5-0 by Newcastle yesterday

Manchester United's share price has been frisky of late. Perhaps I have lost the thread of this particular narrative, but against a 52-week low of 188p the club's share price recently hit a high of 595p, producing a flurry of take-over rumours – despite the fact that United, easily the biggest and most profitable of Britain's quoted football clubs, may be heading for the doldrums, soccer-wise.

As the FT observed last week, the likelihood of a bonanza in pay-per-view television revenues and other profits makes it easy to understand why a predator would be keen to buy Manchester United, even though speculation has made its shares look expensive.

However, what is intriguing is the possibility, so far not mentioned by the cream of Britain's soccer writers, that United – England's league and FA Cup champions – could be in trouble, and may have to spend large sums rebuilding its team.

(I had better declare an interest. I own no shares in Man Utd, but one of my pastimes – harmless, profitable – is sports betting. Shortly after the start of the season I invested a languid £100 at 13-8 on United to retain its Premiership title, the precursor, I imagined, of several bigger bets. Also, I offered certain persons – colleagues – good odds (7-2) against Newcastle winning the Premiership, and other good odds (22-1) against Newcastle winning the league-FA Cup double. Those persons weighed in heavily. All these bets of mine are looking daft.)

Perhaps United will soon shrug off its early-season stupor and incompetence, but I suspect that United's manager, Alex Ferguson, knows he has several expensive problems to mull and ponder. For a start, he may be wondering what possessed him to buy Jordi Cruyff and Karel Poborsky. Above all, Eric Cantona, United's poetic Frenchman, looks a miserably spent firework.

At last Friday's closing price, Man Utd was capitalised at £337m. Before anyone thinks of paying over the odds for it, they ought to wait and see whether this prognosis is correct.

■ English racing is as good as they say it is. Excellent racecourses. Venerable races. Some top-notch horses. But it can also be pretty bad. Snobbish. Bureaucratic. Conservative. Amateurish. Farcical.

It was the farcical face of English racing that was to the fore at Haydock racecourse last week when racing was abandoned because 21 jockeys refused to ride in the second race, claiming the course had been made dangerously slippery by heavy rain. Minutes earlier, the stewards of the meeting had declared the course safe to race on.

You would think, would you not, that if 21 professional jockeys – among them some of Europe's finest, including Pat Eddery and Frankie Dettori – said the course was unsafe, the likelihood would be that the racecourse was, indeed, *not* safe to race on?

However, the jockeys were villified in terms that, once again, spoke volumes about the imperious mentality that still scars English racing, despite its claims to have modernised itself sufficiently to hold its own in the increasingly fierce struggle for sports fans' patronage.

Some of the things said about the jockeys beggared belief. One owner said he was "disgusted" with the little men. "Who is running the game?" he asked. His son said: "It's just mob rule. These jockeys are getting like footballers. They are just too big for their boots."

A trainer claimed the little men were "windy, gutless and over-paid", and added: "I can't believe racing was abandoned. If one of my apprentices had refused to race I'd have sacked him on the spot."

The matter has now been passed to the fragrant souls at the Jockey Club, whose grasp of public relations is often skew-whiff. So here, for their benefit, is £15,000 worth of free PR consultancy: 1) Send large bunches of roses to each of the 21 little men, together with hand-written apologies. 2) Instruct all owners and trainers who were at Haydock last week to attend the next Haydock meeting, and to parade in front of the grandstand on hands and knees. 3) Fine Haydock's management £200,000 and give the money to charities that rescue racehorses from the knacker's yard.

■ Boxer Mike Tyson's four fights since his release from prison in March last year, following a rape sentence, have been such insubstantial affairs – lasting less than eight full rounds in total – that Evander Holyfield, who is due to fight Tyson for the WBA heavyweight title in Las Vegas on November 9, is having to work hard to stir interest in his long overdue meeting with Mighty Mike.

In his last fight, Tyson brushed aside Bruce Seldon in 109 seconds – adding to fans' displeasure with the heavyweight division. Naturally, Holyfield says Tyson has been overwhelming rivals who have neither brain nor brawn, and that he – Holyfield – is the one to change things.

Tyson was champion and Holyfield ranked No 1 when Tyson was *knocked out* in 1990 – his only defeat – by Buster Douglas. Then Holyfield and Tyson were to have fought in November 1991 when Holyfield was undisputed champion. But Tyson hurt his ribs in training and the fight was lost because of Tyson's trial.

"I don't care what someone has done to someone else," Holyfield said last week. "He hasn't done it to me."

Drumming up interest in his big pay-day with Tyson is one thing. But I have a feeling those words of Holyfield's will prove to be the 16 unwisest words uttered by anyone, anywhere, for any reason, in any language, this year.

■ Whatever Atlanta says or does, it will always be known as the city that staged one of the least satisfactory Olympic Games. And it still hasn't worked out whether its games this summer made a small loss, a small profit, or broke even.

The other day, US and international Olympic officials denied reports that Atlanta had suffered a large deficit on its botched games. They dismissed French news reports that said Atlanta had lost of tens of millions of dollars on its \$1.7bn budget.

John Krimsky, deputy secretary-general of the US Olympic Committee, was upbeat. "I have a high degree of confidence that the games in Atlanta will show something other than a deficit," he said. "I think we will have some good news in December. I don't expect great news. But good news is anything black."

Colin Amery · Architecture

London's "tidal wave" of civilisation

There is a tide running through London at the moment – the tide of civilisation.

The flow begins at the Tate Gallery on Millbank, where an exemplary exhibition shows how classical civilisation was brought back to England in the luggage of the Grand Tourists. The river continues to run through the halls of the Royal Academy where the Living Bridges exhibition depicts how inhabited bridges can dignify and enliven the river.

In between the upstream and downstream Tate galleries lies another centre of civilisation currently in its first phases of renaissance – Somerset House.

Sir William Chambers, its architect, died 200 years ago and the anniversary is being marked with the house's largest architectural exhibition ever. It is a powerful experience to be in the main room of Chambers' best building and be surrounded by all the evidence of his powerful architectural and political career.

His life was far more remarkable than might be thought from his rather academic architecture. Born in Sweden to a Scottish merchant in 1723, he began training as an architect under the great Jaques-François Blondel in Paris at the age of 26. Chambers then spent five years in Italy, whereupon he was soon appointed architectural tutor to the Prince of Wales, the future King George III.

It was his knowledge of things Chinese that drew him to royal attention as well as his designs for a mausoleum for Frederick, Prince of Wales. In 1757 the dowager Princess of Wales asked the young Chambers to lay out the grounds of her house at Kew and embellish them with Chinese temples and the great pagoda. His Chinese-theme drawings, published in 1757 and on show in the current exhibition, must have made quite an impression at the time as they were some of the first views of China drawn by a western architect.

But Kew was more than just a few Chinese follies abandoned by the Thames – Chambers wanted it to be a walk through world architecture. There were textbook classical buildings, Roman ruins, and Moorish, Turkish and Gothic buildings. The pagoda was then, and remains, the most ambitious Chinoiserie structure in Europe. On one side of the pagoda was the Alhambra vividly coloured and tiled and on the other a mosque with two minarets and a blue dome.

Chambers' sense of fun shown in these revolutionary royal buildings seems to have deserted him when it came to his important public works. He was appointed surveyor-general and comptroller to the Office of Works in 1782, and his vital work is the site of this exhibition: Somerset House.

The heart of the exhibition is in the Great Room built for the annual exhibitions at the Royal Academy. In the centre of the room is a showcase of Chambers-designed gold, silver and ormolu – and it is ravishing stuff. The mixture of drawings, paintings, furniture, clocks and architectural models makes this one of the best architectural exhibitions for a long time. The rooms of Somerset House themselves look better than they ever have.

There is a unique opportunity to visit the Navy Stair on Saturday afternoons until the exhibition closes next January 5. The stair is in a seldom-seen part of the building, as it is still occupied by the Commissioners of the Inland Revenue. This is one of the most remarkable stairs in England, for it leaps across a circular space in a way that looks technically impossible.

BUSINESS TRAVEL

Travel News • Roger Bray

Supersonic start

British Airways may introduce ticketless travel on Concorde flights next year. The airline is already experimenting with the system, which does away with conventional paper tickets, on its Gatwick-Aberdeen route. The London-New York supersonic service has been earmarked for its first long-haul trial. Concorde, which attracts a high proportion of regular, sophisticated travellers, is seen as an ideal testbed.

Meanwhile the International Air Transport Association is on the point of announcing common industry standards for electronic ticketing.

First step

Beirut, patching itself up after years of civil war, is to get its first Holiday Inn. The 165-room Martinez is due for completion by the end of 1998 and promises a swimming pool, fitness centre, restaurants, an executive floor and extensive meetings facilities. The development is part of a long-term strategy by Bass subsidiary Holiday Inn Worldwide to manage 30 properties in the Middle East by the turn of the century.

Shopping spree

Transatlantic business travellers flying from the UK's Birmingham airport next month will get a £100 voucher to spend in the duty-free and tax-free shops.

To qualify, passengers must book a flight in the UK departing in November in British Airways' Club World cabin to New York or Toronto or an American Airlines business-class or first-class flight to Chicago.

The Midlands airport, which handled 5.45m travellers in its last full financial year, wants to make more business travellers aware of its US and Canadian links.

Regional rise

More travellers are hopping around Europe on regional airlines. Last year saw passenger growth of almost 13 per cent on such services. The first three months of this year produced a further 16 per cent increase. The figures are from the European Regional Airlines Association.

Aside from the post-recession increase in business travel, there are two main reasons for these impressive figures. One is the deregulation of Europe's air routes, the other the trend among big carriers to concentrate on the busiest routes while handing over the rest to franchise or code-sharing partners.

Route shake-up

To make way for domestic expansion, Deutsche BA, British Airways' German partner, will drop three lossmaking international services at the end of this month from its Munich base to Paris and Madrid and Berlin to Oslo.

Early next year it will launch flights from Munich to Hamburg and Cologne.

Greener hotels

Environmental awareness by hoteliers is not merely politically correct. It also saves a lot of money. Cuts in energy consumption at the Inter-Continental's 190 properties reduced the chain's costs by 27 per cent between 1988 and 1995. The Yokohama Grand alone has slashed its bill for hot water and other such essentials by $2.3m over three years, despite increasing occupancy from 56 per cent to 71 per cent.

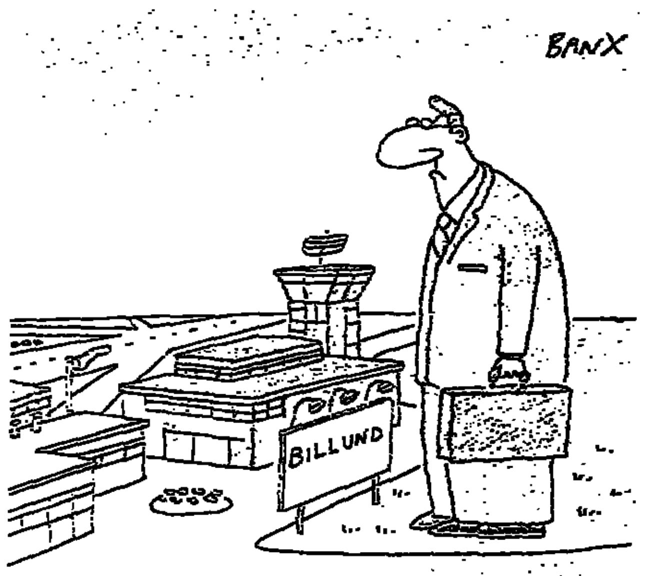
So when you get ready for dinner, take a shower instead of a bath – and turn the bedroom lights off when you leave.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	19	20	21	21	22
Hong Kong	29	30	30	30	30
London	17	17	18	15	15
Frankfurt	15	16	18	16	16
New York	15	19	19	18	18
L.Angeles	24	25	24	24	26
Milan	18	18	20	19	18
Paris	18	19	20	21	17
Zurich	13	14	17	17	14

Amon Cohen on how Billund airport is successfully linking Jutland, home of the Lego Group, with the rest of Europe

Toy town grows up



Given a few hours and a bucket of Lego toy bricks, many a child has constructed an imaginary plastic airport. What few people know is that the Lego Group once built its own airport.

Lego is based in Billund, Jutland, the western part of Denmark. When the group expanded rapidly in the early 1960s, it realised its potential was being frustrated by poor communications. The nearest international airport was Copenhagen, a drive of nearly four hours, and Lego considered transferring to the Danish capital.

Instead, in 1962, Lego built an airstrip near Billund and bought an aircraft to fly its executives around Europe. Other businesses in the area saw what Lego had done, and with their lobbying the airstrip was converted into a large airport in 1964.

Today Billund is the second largest airport in Denmark, despite the fact that the town's population is only 8,000. However, the catchment area includes much of Denmark's industry, and there are more than 2m people living within 75 minutes' drive of the airport.

Passenger volumes have increased rapidly in recent years as a result of aviation liberalisation within the European Union. In 1992, the passenger total was 1.2m. This year it is expected to reach 1.9m, about 325,000 higher than last year's figure.

Of that number, half are flown by Maersk Air, which serves Copenhagen, Stockholm, London, Amsterdam, Brussels, Paris and Frankfurt. Maersk also flies to smaller places in Scandinavia and to the Faroe Islands, whose airport has the shortest runway in the world that is served by a regular Boeing 737 service.

Maersk has just relaunched its business class. It has installed leather-upholstered seats, in an effort to distinguish its premium product from its economy class. Seat pitch is 33in – generous by short-haul standards – and there are only five seats in each row, compared with six in economy.

Denmark's largest airline after SAS, Maersk has seen its fortunes improve along with those of the airport it dominates, and turned in a profit of DKr150m (£16m) in 1995. Maersk is owned by the private A.P. Madder Group, the largest company in Denmark and one of the world's three largest shipping businesses.

Like Billund, Maersk has thrived on deregulation and the freedom to open new routes within the EU. In 1993 it became the first EU airline to take 100 per cent control of a carrier in a member state when it bought the UK's Birmingham European Airways, now a British Airways franchise. It also recently took a 49 per cent stake in Estonian Air.

There is a handful of other scheduled carriers at Billund, including Norway's Braathens SAFE, but early next year Maersk's position is due to be challenged seriously for the first time. SAS has announced that it will start flights to Frankfurt from January 6, and has scheduled its two daily departures only 10 minutes apart from those offered by Maersk.

The plot thickens when it is realised that Frankfurt is the main hub of SAS's new partner, Lufthansa. Alliances thrive by finding sufficient small routes along which to drive passengers on to arterial long-haul services – so it would seem that even Billund is to be affected by the realignment of the world's airlines.

According to Jorn Eriksen, Maersk's senior commercial vice-president: "No doubt there is going to be price competition and excess capacity."

As competition intensifies, Billund has plans for expansion. Unfortunately, it will not be possible to extend the existing terminal, which would disturb the sacred burial ground of King Amlet. Instead, it has been decided to build a new terminal, which is due to open in 1999.

Downtown, with an armed bodyguard

Advice for visitors to Johannesburg can make scary reading. Motorists, for example, are sometimes told that police are unlikely to treat someone who drives at high speed through a red light harshly if they were in fear of their lives.

It is tempting to ignore the advice. After all, from the comparative safety of your car during the day, Johannesburg looks like any city. But one of the less palatable consequences of the collapse of the apartheid regime has been soaring crime: Johannesburg has the dubious distinction of being regarded as one of the world's most dangerous cities.

Yet overseas arrivals continue to grow as both tourists and business travellers benefit from the return of South Africa to the world community. According to Satour, the tourist authority, the number of visitors, including business travellers, rose 52 per cent in 1995 compared with the year before.

In fact business travellers are unlikely to stay in downtown Johannesburg. Rising crime has prompted businesses to move to the safer northern suburbs of Rosebank and Sandton. There are hotels downtown that still cater for business travellers – one, The Carlton, will, on request, provide an armed bodyguard for its guests. And, despite the flight from the centre, financial institutions still have bases downtown. The stock exchange is also located in the heart of the central business district.

Control Risks, the UK security consultancy, advises that it is reasonably safe to walk around the central business district by day, but that it should be avoided after 6pm.

Grant Gordon, a director of William Grant & Sons, the Scotch whisky distiller, says the area becomes "eerie" later on. "I stayed in one of the big downtown hotels about three years ago and I remember stepping out into the street in the evening and finding the place empty. I didn't want to stay downtown again."

Like most business travellers, he now stays outside the city. "We've done what most people have and decamped to Sandton – it's a very pleasant place, there's lots of activity in the evening. You can really feel very isolated if you stay downtown."

For those businesses that have stayed put in the city, security is comfortingly draconian. Access to a building is often via a guarded parking lot, and visitors are subject to a second check at the lift area. Even restaurants have similar barricades.

One thing that has improved for business travellers to South Africa is the international connections. As Gordon remarks: "It's much easier to get in and out of South Africa. I can now plan trips to Australia via South Africa, and you can flick across to South America."

The downside, according to Kyle Davis of travel group American Express, is that business class airfares to South Africa from the UK are rising more sharply than overall prices out of the UK.

Until recently only British Airways and South African Airways flew from the UK to Johannesburg. The arrival of Virgin Atlantic has not, as yet, exerted any downwards pressure on fares.

Another downside for the business traveller is pressure on the airports. Tara O'Connor, Africa analyst at Control Risks, says that many South Africans prefer to commute from Durban or Cape Town to Johannesburg. As well as the sheer numbers, the airports are also affected by crime. However, policing has been stepped up markedly, and a barrier just inside the terminal building prevents anyone who is not a passenger getting too far inside the airport.

"You could be paranoid and stick to the supersafe option," says O'Connor, "by staying in your hotel, eating in its restaurant." But, as Gordon remarks, with South Africa emerging as an important market for consumer goods, "you can't afford not to be there".

Kate Bevan

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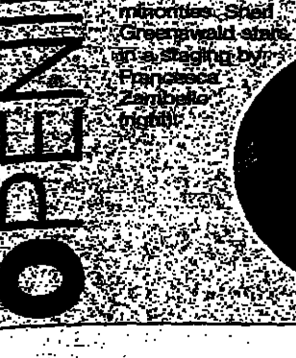
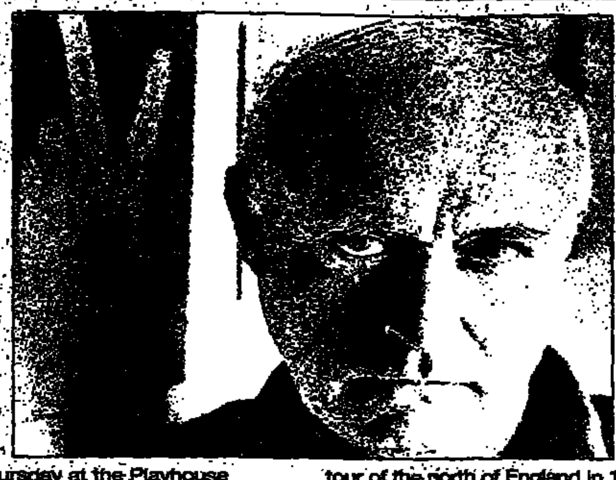
ARTS

OPENINGS

HOUSTON
Daniel Catán's opera *Florencia en el Amazonas* receives its world premiere at the Wortham Center on Friday. The opera, about a singer who journeys up the Amazon in search of her long-lost lover, is part of Houston Grand Opera's [illegible] of new works aimed at American [illegible]. Sheri Greenawald [illegible]



LONDON
The still audacious and authoritative Edward Bond (right) directs the British premiere of his own play *In the Company of Men*, which opens in RSC repertory tomorrow at The Pit. The cast is led by George Anton and David Ryall.
Janet McTeer is Nora in a new version of Ibsen's *A Doll's House* by Frank McGuinness. Opening on Thursday at the Playhouse Theatre, it is directed by Antony Page. The cast also includes Owen Teale and John Carlisle.



London's latest Hamlet is Michael Maloney. His many previous Shakespeare roles have included the Dauphin in the Branagh film of *Henry V*, and - with the RSC - Romeo and Prince Hal. This *Hamlet*, opening at the Greenwich Theatre on Wednesday, is directed by Philip Franks.
The Tate Gallery's latest exploration of the work of J.M.W. Turner focuses on his tour of the north of England in 1797, when he was 22, which had an influence on his creative output for the rest of his life. The exhibition opens tomorrow.

BIRMINGHAM
As part of celebrations marking Copenhagen's year as cultural capital of Europe, the Danish National Radio Symphony Orchestra visits the UK this week with its chief conductor, Ulf Schirmer (above). The tour opens on Friday at Birmingham's Symphony Hall, and features symphonies by two Danish composers, Nielsen and Bent Sørensen.

PARIS
The Opera Ballet presents a triple bill which includes Ashton's *Rhapsody*, his first work to be staged by the company. Agnes de Mille's *Fall River Legend* and Lifar's dazzling *Suite en blanc* complete the programme on Thursday at the Palais Garnier.

ROTTERDAM
A retrospective of the English ceramicist Martin Smith (b.1950) opens at the Boijmans Van Beuningen Museum on Saturday. Smith has developed a reputation for assembling cut-up forms into pots whose shapes challenge traditional ideas about modelled ceramic vessels.

VIENNA
The Viennese premiere of Verdi's *Stiffelio* takes place on Saturday at the State Opera, in Elijah Moshinsky's (below) production from Covent Garden. The cast is headed by Jose Carreras, Mara Zampieri and Renato Bruson, and the conductor is Fabio Luisi.

Junk bond ballet

Tracy Corrigan reports on the background to an avant-garde interpretation of the rise and fall of Michael Milken

There are two schools of thought on Michael Milken, the king of the 1980s junk bond market. The first is that Milken helped his greedy, often rather talentless cronies to strip the assets of established companies without regard for either the letter or the spirit of the law, making himself one of the richest men in America in the process. When he was eventually prosecuted and sent to prison, he got what was coming to him.

Then there is the revisionist history: Milken's espousal of junk bonds – bonds issued by companies with lowly credit ratings – gave small entrepreneurial companies real access to capital for the first time, enabling them to bid for bloated blue-chips. His achievement was the democratisation of capital, no less, and his subsequent downfall was the wrath of the establishment descending on a social upstart.

There is truth in both these readings of events. But I was surprised that Karole Armitage's *The Predators' Ball*, an avant-garde "multimedia" ballet based on the 1988 book by Connie Bruck and performed last week at the Brooklyn Academy of Music, so wholeheartedly espouses the revisionist version. Her treatment of her subject is usually sympathetic and at times almost reverential in tone.

Armitage's Milken is a rather cold but brilliant visionary. His IQ is unmeasurable. He is likened to Copernicus and Luther. His only problem is "a discipline so intense that it takes over his life". At worst, he comes across as a junk bond nerd who just got carried away.

This seems rather too generous a reading of events. True, Milken was not your average sleazeball. He didn't smoke, do drugs, drink alcohol or even coffee or carbonated drinks. But he was a *bond salesman*, for God's sake. At his annual junk bond shindig – the eponymous "Predators' Ball" – one executive was charged with ensuring that clients were surrounded by attractive girls, paid "varying amounts, depending on how pretty they are and what they'll do", according to a source in Bruck's book. Armitage's ballet conveys little sense of the palm-greasing and back-scratching which were part of the *modus operandi* of Milken's junk bond and leveraged buy-out markets.

Milken was the driving force behind the creation of a $100bn junk bond market out of virtually nothing, in the process reviving the flagging fortunes of his firm, Drexel Burnham Lambert, which he joined in 1970. Junk bonds came into their own in the 1980s, when they financed some of the largest corporate takeovers in history – known as leveraged buy-outs because of their heavy reliance on debt financing. Milken was indicted in 1989. In 1990, following the collapse of the junk bond market, Drexel was forced to declare bankruptcy.

He is likened to Copernicus and Luther. His only problem is 'a discipline so intense that it takes over his life'

Much is made in the ballet of Milken's evangelical zeal. This is well documented. Bruck says he credited himself with having "led the revolt of an underclass to scale the walls of corporate America and depose the rich, credentialed and powerful". One may not shed tears for the Wall Street elite whose franchise he stole, nor for Armitage's "blue-bloods at blue-chips" who were paid off handsomely when their firms were bought out. But it is difficult to feel enthusiastic about those he empowered – mostly a motley crew of opportunists with shady business practices and blemished histories.

Finally, there is the issue of Milken's criminality. The most vehement apologists for Milken, like Daniel Fischel in his 1995 book *Payback: The Conspiracy to Destroy Michael Milken and his Financial Revolution*, believe quite simply that Milken did nothing wrong. Some think he was a victim of anti-Semitism. Fischel describes what happened to Milken as worse than the McCarthyism of the 1950s. That some powerful interest groups were not displeased by Milken's removal from the scene is indisputable. But he gave his enemies plenty of ammunition. Insider-trading laws are notoriously ill defined – Fischel argues unnecessary – but even ignoring the insider-trading charges, the fact remains that Milken got rich, in part, by ripping off his clients: investors, who were sold bonds at less favourable prices than his own investment partnerships; and companies, who were forced to offer Milken warrants in exchange for placing their bonds. Hardly the stuff of which heroes are made.

But that is how Armitage appears to perceive Milken. If the references to classical Greek tragedy are meant to be ironic, then she should have been tougher on him. In Armitage's ballet, if Milken oversteps the mark, it is through excessive zeal. He is driven, like the heroes of the Greek classics she suggests, to a tragic destiny by this single flaw.

In fact, Armitage's vision is quintessentially American, not Greek. She cannot help but admire Milken as a self-made man, a doer, an incarnation of the American dream. The problem with her characterisation of him is that Michael Milken is interesting for what he did rather than who he is. He was a great salesman, and he changed the face of corporate America. But personality? Moral substance? Not really. The story of Milken's deals and dealings made a great book, but not a great ballet.

Dance critic **William Deresiewicz** questions the choreographer's perspective

Fewer markets, more movement

Karole Armitage and Michael Milken, 1980s icons in their respective spheres, have this in common: neither exhibits much in the way of a moral imagination. Milken, famously, knew not what he did. And Armitage knows not what he did either.

The Predators' Ball certainly pretends to important judgment. A smirking, silver-suited god and a hip-hop chorus, together with much loose talk about Destiny and Fate, represent the choreographer's attempt to appropriate the meanings of Sophoclean drama.

But the narrative is so clumsily handled that the grandeur of Milken's insane ambition gets frittered away in *facile explanation*.

The problem with the production is neither the improbability of its conception, nor the aggressively pop-cultural manner of its treatment: with the second of these I certainly have no quarrel. Milken and his stiff-suited kind may have had little in common with the rappers and break-dancers and party-kids through whose music and dance Armitage sets out to tell his story, but the conflation is persuasive and, in the first ten minutes at least, effective. For all their differences, the markets and the clubs belonged to the same world. The markets produced the money that fed the clubs; the clubs produced the culture that eroticised the markets. The common denominator, as Armitage knows, was style: speed, loudness, propulsive thrust; arrogance, cynicism, an inventive kind of cunning.

When she manages to keep the elements in synch, her hip-hop bond-trading and techno-pop Congressional testimony give visceral form to desperate, blind desire. But for the most part, she does not manage to keep them in synch. Chunks of turgid exposition alternate with equally turgid chunks of dance.

On the one hand, Armitage delivers her arguments in brute monologic form: a video voice-over about Milken's genius, *a tirade from the man himself on* his "democratisation" of the bond market. On the other, she seems largely oblivious *to the metaphoric* implications of her appropriated styles. Much of the dance material takes the form, not of hip-hop at all, but of ballet, a genre without discernible relevance to her subject.

To be fair, the production is not without its pleasures. If nothing else, Armitage knows how to put movement together. The dancers of MaggioDanza di Firenze, where she serves as director, brought off her handsome, slashing combinations with tireless precision and chic. Best of all was the voguer Stanley DeVaughn, a paragon of cool sexuality and serpentine grace.

But the divorce of story and styles points to the production's central problem. Armitage *achieves no perspective* either on her material or on her methods.

Daniel Pirrie and Adam Chalk as wealthy teenagers on trial for murder — Alastair Muir

Theatre/**Sarah Hemming**

Motivations for murder

On my way out of *Never the Sinner* I bought a newspaper reporting a judge's verdict on a boy who stabbed a London headmaster. On the train home, the woman opposite me was reading a book entitled *Children who Kill*. Certainly, John Logan's play about the infamous Chicago killers, Leopold and Loeb, is nothing if not topical.

Logan's 1985 play (revived at the Arts Theatre, London in a remarkably smooth production by King's College School, Wimbledon) has two strands to it. It is a psychological whydunnit and a piece of campaigning drama. On the one hand, it takes the case of the two "thrill-killers", the wealthy teenagers Richard Loeb and *Nathan Leopold* who murdered a 14-year-old boy in 1920s Chicago for no apparent *motive, and explores their* relationship and their motivation. On the other, it examines the reasoning of the fine attorney, Clarence Darrow, who took on their defence, pleading them guilty but arguing that the death penality should not be applied.

By twisting these two strands together, Logan plays the boys' *apparent callousness off the* lawyer's compassion to get to the nub of Darrow's argument: that mercy, rather than vengeance, should guide the application of law. In his summation, forcefully arguing that the two should not be hanged, he states "I know the future is with me, and what I stand for here." The irony in Logan's play, of course, is that, in the writer's native America, Darrow's confidence in a future without the death penalty has only partially been borne out.

The play is the stronger for not romanticising the two boys. They come over as arrogant, spoilt and foolish. But behind their explanation, that they killed their victim as an "experiment" driven on by a misguided application of Nietzschean philosophy, Logan detects a complex web of passionate feelings. Richard Loeb emerges as an incomplete person – rich attractive, popular – yet driven by fantasies and a desperate desire for control; Nathan Leopold as the loner who fuelled Loeb's fantasies with his adoration and sexual obsessiveness. As one of the psychiatrists remarks, individually neither would probably have committed the murder, but together they galvanised each other towards destruction.

It is a slick, well made play, flipping in and out of the courtroom, using flashbacks to draw us into the boys' behaviour and employing a gaggle of reporters to suggest the intense excitement of the people of Chicago over the case. The dialogue sports some clunking clichés ("Boys, I got the rest of my life," says Darrow, when one of them asks him how much time he has), but the play still grips.

The young company, directed by Philip Swan, give it a polished production, crowned by two convincing performances from Adam Chalk as the slight, withdrawn Leopold and Daniel Pirrie as the charming, effervescent Loeb; and a touching one from Christopher Day as the great attorney whose wisdom moves him to condemn the sin but "never the sinner".

Arts Theatre, London WC2 to November 2 (0171-836 3334)

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Nederlands Kamerorkest: with conductor Hartmut Haenchen and violinist Shlomo Mintz perform works by Bartók, Beethoven and Mozart; 8.15pm; Oct 26
● Symphonieorchester des Bayerischen Rundfunks: with conductor Lorin Maazel perform works by Beethoven and R. Strauss; 8.15pm; Oct 22

ANTWERP

DANCE
De Singel Tel: 32-3-2483800
● Nuit: a choreography by Mathilde Monnier to music by Cage, performed by the Centre Chorégraphique National de Montpellier. Soloists include Lluis Ayet Puigarnau, Seydou Boro and Germana Civera; 8pm; Oct 22, 23

BARCELONA

EXHIBITION
Christie's Barcelona Tel: 34-3-4878259
● Modern and Contemporary Art from the 19th Century: exhibition at the Hotel Husa Palace, marking the launch of Christie's new office in Barcelona. The works on display will be auctioned in London in November and December. Artists represented include Melfrén, Renoir, Sisley, Vuillard, Leger, Rothko, Tàpies, Saura, de Staël, Fontana and Soulages; from Oct 21 to Oct 22

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Ensemble UnitedBerlin: with conductor Shao-Chia Lü and soprano Michiko Hirayama perform works by Yun, Scelsi and Kubo; 7.30pm; Oct 24
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Breslauer Kammerorchester Leopoldinum: with conductor Stefan Bevier, violinist Viktor Kuzniecow and soprano Celestina Casapietra perform works by Vivaldi, Tosti, Verdi and Puccini; 8pm; Oct 22

CHICAGO

THEATRE
Steppenwolf Studio Theatre Tel: 1-312- 3351888
● The Viewing Room: by Rubin. Directed by Anna D. Shapiro, performed by the Steppenwolf Studio Theatre. The cast includes Paul Adelstein, Heidi Mokryeki and Darryl Alan Reed; Wed - Fri 7.30pm, Sat 4.30pm & 8.30pm, Sun 2.30pm (Oct 27: 6.30pm); from Oct 27 to Nov 24 (Not Mon)

COPENHAGEN

DANCE
Det Kongelige Teater Tel: 45-33 69 69 69
● Hamlet: a choreography by Peter Schaufuss to music by Sort Sol and Langgaard, performed by the Royal Danish Ballet and the Royal Theatre Orchestra; 8pm; Oct 23

FESTIVAL
Copenhagen Cultural Capital '96 Tel: 45-33 77 96 33
● Copenhagen Choir Festival: fourth edition of this festival featuring more than 25 concerts taking place in the heart of old Copenhagen. The festival focuses on choir music from the 20th century and music for choir and instruments. The Phoenix Chamber Choir will officially open the festival with a concert at The Danish National Radio Concert Hall on October 24 (8pm), followed by a performance of Carl Orff's Carmina Burana, led by conductor Michel Tabachnik; from Oct 22 to Oct 27

DUBLIN

EXHIBITION
National Gallery of Ireland Tel: 353-1-6615133
● William J. Leech (1881-1968), an Irish painter abroad: a retrospective exhibition of works by William J. Leech. It brings together more than 100 works and explores the artist's drawings, watercolours and paintings, most of which are in private hands; from Oct 23 to Dec 15

LISBON

CONCERT
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131
● Renata Scotto: performance by the soprano, accompanied by pianist Edelmiro Arnaltes. The programme includes works by Gluck, Handel, Bellini and Rossini; 7pm; Oct 22

LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● Grant Maintained Schools' National Orchestra and Choir: with conductor Robert Pepper and percussionist Evelyn Glennie perform Heath's African Sunrise and Manhattan Rave; 3.30pm; Oct 26
Wigmore Hall Tel: 44-171-9352141
● Felicity Lott, Ian Bostridge, Matthias Göme, Robin Blaze and Graham Johnson: the soprano, tenor, baritone, countertenor and pianist perform works by Britten, Schubert, Wolf and Poulenc; 7.30pm; Oct 24

EXHIBITION
Victoria & Albert Museum Tel: 44-171-9388500
● Green Furniture: Ecological Design: this display, featuring furniture made of recycled post-consumer waste, recyclable virgin materials, or materials from sustainable sources, shows the possibilities for industrial mass production combining contemporary aesthetics with ecological responsibility; from Oct 22 to Apr 13

MADRID

CONCERT
Auditorio Nacional de Música Tel: 34-1-3370100
● Royal Philharmonic Orchestra: with conductor Xavier Güell perform Mahler's Symphony No.9; 10.30pm; Oct 22

NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● New York Philharmonic: with conductor Herbert Blomstedt and pianist Kristian Zimmerman perform works by Bruckner, Hindemith and Brahms; 8pm; Oct 24, 25 (2pm) , 26

EXHIBITION
The Equitable Gallery Tel: 1-212-554-4818
● Henri Cartier-Bresson in America: exhibition devoted to photographs taken in the US by the French photographer Henri Cartier-Bresson. Comprised of more than 100 works selected by Cartier-Bresson, the exhibition spans four decades, from 1935-1975; to Nov 2

PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Orchestre Nationale de France: with conductor Jeffrey Tate and soprano Barbara Hendricks perform works by Mozart and Berlioz; 8.30pm; Oct 26

SAN FRANCISCO

OPERA
Bill Graham Civic Auditorium Tel: 1-415-861-4008
● Carmen: by Bizet. Conducted by Donald Runnicles, performed by the San Francisco Opera. Soloists include Olga Borodina and Philip Skinner; 7.30pm; Oct 22, 25

VALENCIA

CONCERT
Palau de la Música i Congressos Tel: 34-6-3375020
● Mario Monreal: the pianist performs Beethoven's Sonata No.30 in E major, Op.109, Sonata No.31 in A flat, Op.110 and Sonata No.32 in C minor, Op.111; 8.15pm; Oct 22

VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Wiener Symphoniker: with conductor Rafael Frühbeck de Burgos and pianist Rudolf Buchbinder perform works by Mozart, Beethoven and Brahms; 7.30pm; Oct 22, 23, 24

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COMMENT & ANALYSIS

Michael Prowse · America

The case for Dole

The US electorate has underestimated the political skills and personal qualities of the Republican candidate

A late surge in support could yet carry Mr Bob Dole to a surprise victory on November 5. But the odds seem strongly to favour a second term for President Bill Clinton.

The case against Mr Dole seems clear-cut. At 73, he is said to be too old to be president. He is supposedly out of touch with voters, especially baby-boomers. He is often tongue-tied, a sin in an age that expects the president to be "communicator in chief". He is said to have a confused legislative record. He reputedly lacks compassion, as illustrated by his support last year for the "extreme" social policies of the Republican Congress. His plan to cut taxes is supposedly inconsistent with his record as a deficit hawk. He is accused of "lacking a vision" for the 21st century.

That the public may view Mr Dole negatively is not wholly surprising if you consider that the Washington press corps voted overwhelmingly for Mr Clinton in 1992. One of the obstacles facing Republican candidates is the Democratic bias of nearly all the opinion-forming groups, including journalists, academics and teachers, the publishing industry and Hollywood. Yet Mr Dole has strong claims to the presidency that are often overlooked.

He is undeniably old, yet he seems energetic and mentally alert. Politicians of his age have served with distinction in other countries. If age is a handicap, it lies in Mr Dole's conception of masculinity, which dates from the Ernest Hemingway and Humphrey Bogart era when heroes were strong, silent and uncomplaining. Mr Dole, one suspects, has nothing but contempt for Mr Clinton's loquacious sermons – and those watery-eyed displays of emotion that help the president "bond" with voters.

Mr Dole, it should be remembered, has really suffered. His bravery on an Italian battlefield led to horrific wounds. He spent years in hospital and had to learn again how to walk, dress and feed himself. His disabilities are still painfully evident. His shrivelled right arm hangs limply at his side, the useless fist clutching a pen. To recover and rise to the top of the Senate required a rare courage. Yet rather than admiring Mr Dole and forgiving his dark, ironic wit, the public seems embarrassed by his injuries. It finds Mr Clinton's bouncing health and bonhomie more comforting.

What of Mr Dole's policy record? The claim that he lacks compassion does not stand scrutiny. Yes, he was one of 12 Republicans who voted against the creation of Medicare, the healthcare scheme for the elderly. Yes, he opposed the creation of a federal education department. But he has backed many programmes for the genuinely disadvantaged. In the 1970s he worked with George McGovern, the left-wing Democrat, to expand the food stamp programme and to extend social benefits to poor women and children. He started his own foundation to help the disabled and worked to pass the Americans with Disabilities Act in 1990.

What Mr Dole has fought against is unnecessary bureaucracy (education is primarily a state, not federal, responsibility) and wasteful "entitlement" programmes that benefit the middle and upper classes as well as the poor. He supported the means-tested medical schemes that preceded Medicare: had the US remained on that road, it would have had smaller budget deficits.

And he played a leading role in the 1980s in curbing and reforming social security, the federal pension programme. In 1985 he put economic principle ahead of politics in pushing for a cut in benefits: Democrats cynically exploited the Republicans' sense of responsibility (just as they did last winter on Medicare) and won control of the Senate the following year.

Mr Dole's tax-cut plan is a departure from his history of fiscal orthodoxy. But given the Democratic lead in the polls this summer, a political gamble of some kind was surely justified. Contrary to the hype, the cuts would amount to only 1 per cent of national income and could be offset by spending cuts. Mr Dole's true fiscal priority is his promised constitutional amendment mandating a balanced budget – a reform vetoed by Mr Clinton last winter.

The best-informed judges are often our peers. On this criterion Mr Dole scores high marks. Before resigning this summer, he had served a record 11 years as Senate majority leader. If the US had a parliamentary system, he would have been prime minister twice. Senators from both parties – including leftwing Democrats – speak warmly of his personal integrity and unrivalled capacity for bridging party differences. He is liked and admired by most people who know him well: something that cannot be said for Mr Clinton. If the Senate, rather than the people, voted for president, pundits have speculated that Mr Dole would win a majority even among Democratic members.

Unlike Mr Clinton, Mr Dole does not wave a laundry list of government schemes. He does not have a slick pseudo-solution for every problem. He does not ooze compassion and promise to mend every hurt. He is not cloyingly sentimental. What he offers instead – on a very modest scale – is a return to the virtues of the founding fathers: self-reliance, hard work, personal responsibility, less government.

He is far more likely than Mr Clinton to act firmly to slow the growth of entitlement programmes such as healthcare and pensions – something that most economists agree is now an urgent priority. And in an age of moral and cultural decline, his life and conduct present a better example for young people than Mr Clinton's. In the sound-bite era these virtues perhaps make him unelectable; if so, it is America's loss.

Role-models for Dole? Hemingway (left) and Bogart

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Water's future is with equity

From Mr Nicholas Hood.

Sir, Of course your short leader "Ebb tide" (October 15) cannot avoid generalisations about the privatised utilities, including water. In the privatised water industry the record of most investment outside the water and waste water business, which is regulated, has been poor – but it is still wrong to lump them all together.

Wessex Water has consistently made a profit, and a growing profit, from its investment in a solid waste business – UK Waste – and the money to buy the business was raised from shareholders with no impact on our regulated activities.

We have been consistent in seeking to provide the best service we can to the customers of our regulated business and I have said again and again that "without satisfied customers in the regulated business we shall have dissatisfied shareholders and staff as well as unhappy customers".

God forbid that we follow the last suggestion in your leader and "swap equity for fixed interest or other forms of security". We would be back to the bad old days of the public sector with no incentive to reduce costs that, under the present sound system of regulation, eventually emerges as lower charges to customers.

Please do not allow the more spectacular problems of poor diversification, interruptions of water supply and even reward for poor performance to executives to obscure the remarkable transformation of an industry from the public to the private sector. This transformation has enabled regulators to deliver and the customers to enjoy far higher standards of service at ever-reducing costs and, were it not for the £27bn of capital spending required, the industry's charges would be lower than inflation. I recall the old attitudes of the public sector where changing people in changing governments and changing civil servants were unable to manage the industry. The industry then seemed to play the game of seeking as much capital as possible, reducing costs as little as possible and policing its own standards as gently as possible.

Privatisation, with customers' charges capped, has worked, and must be allowed to continue to flourish. So please let no-one be tempted to substitute equity with fixed interest securities for water utilities.

Nicholas Hood,
chairman,
Wessex Water,
Wessex House,
Passage Street,
Bristol BS2 0JQ, UK

A price that is not worth paying

From Mr D.A.A. Fagandini.

Sir, By dismissing your leader in true managerial fashion (Letters, October 15), the director-general of the Institute of Directors has brought into the open the real nub of the argument about Emu.

Gone are concerns for UK sovereignty, the supremacy of parliament, the deep-seated concerns of the public. In their place we have the freedom of any UK chancellor to set our interest rates. And in this context, "interest rates" are surrogate words for devaluation.

Mr Tim Melville-Ross, brandishing the very latest OECD and International Monetary Fund reports, waves aside the decades during which the international value of sterling has been on a consistent slide and implies that this must continue – there is no hint of a trend reversal – if the UK economy is to flourish. There is no recognition that the OECD and IMF reports reflect the determination of the UK chancellor to adopt the conditions of the Maastricht treaty pertinent to Emu, nor that our freedom to diverge from them on the sidelines might not be worth having because of the inflationary consequences.

Your admirable leader of October 14 says all that needs to be said by those who take seriously the formidable interests at stake. The one note of sadness I detected was that, like all our other institutions, Europe's most powerful financial centre had also missed its opportunity to participate fully and constructively in an "historic process". The irony of this will come home to us when the very machinery of the City is deployed by investors the world over to ensure we abide by it.

D.A.A. Fagandini,
6 Alleyn Park,
Dulwich,
London SE21 8AE, UK

Simply another way to keep score

From Mr Peter Smith.

Sir, I would like to add to the notes of caution about the economic value added approach sounded in these columns in recent weeks. Although it is useful as a way of focusing management attention on the fact that capital is not free it has several limitations as a true measure of shareholder valuation creation.

Mr Antill (Letters, October 18) has correctly pointed out some of the dangers of using a single period measure of performance in the context of value creation which must, by definition, take into account the long-term impact of present actions. A second and more serious problem relates to the selection of the capital base in the calculation. To create value for shareholders in a given period a company must earn a return greater than the cost of capital on the market value of the company at the beginning of the period. No amount of adjustment of the accumulation of sunk costs in the balance sheet can systematically reflect a market value which is based on future expectations.

It does not provide the strategic or operational insight necessary. It is simply another way to keep score. For those who wish to help their companies create and sustain more value for shareholders there are, unfortunately, very few short cuts. The infusion of shareholder value principles throughout all levels of an organisation can indeed transform performance, but adding up the old numbers in new ways is not the solution.

Peter Smith,
partner,
The LEK Partnership,
1-11 John Adam Street,
London WC2N 6BW, UK

A place so reminiscent of England

From Mr Martin F. Arias

Sir, In an article titled "Pulling out – the final chapter?" (October 5/6), Stephen Fidler attempts to describe life in Panama, the latest locale for a John le Carré novel, as a place where "the concept of conflict of interest – the ide[a] that business and politics should be separate – has almost no resonance". Such an observation appears to more appropriately describ[e] the British parliament in light of recent revelations that many MPs diversify their income by serving as "consultants" to leading corporations with an intere[st] in pending legislation.

Mr Fidler also asserts tha[t] "Panama's small ruling elit[e] is related and has gone to school with those to whom they are not related." It would appear that just abo[ut] the same thing could be sai[d] of any self-respecting English blue-blood who has attended a "public school". [I] can only conclude that Mr Fidler seems to understand Panama so well because it fits the British mould of democracy so snugly.

But do not take my word for it. In a recent article in the New York Times Magazine, Mr le Carré wrot[e]: "As I listened to one horro[r] story after another about high-level Panamanian corruption, I found myself nodding in silent recognition, and thinking: Quelle Angleterre." Mr le Carré went on to describe his purpose in writing his latest novel: "But most of all, I wanted [my readers] t[o] dream that they have been in Panama. Then to wake (and realise they had been i[n] England all the time."

Martin F. Arias,
One Liberty Plaza,
New York,NY 10025, US

A striking resemblance

From Mr Christopher Carr.

Sir, Re your report "Lan[d] Rover to produce 'baby' model" (October 16), I was most interested to see that the new vehicle will look exactly like the Subaru Legacy my wife already ha[s]. Another British "innovation", or simply artistic licence?

Christopher Carr,
Geneva,
Switzerland

Personal View · Scott Ratzan

An end to the madness

The 'mad cow disease' hype in the media must be stopped by the UK government

It has been six months since a UK government report suggested that bovine spongiform encephalopathy (BSE) or mad cow disease – a disorder prevalent in British beef – could be transmitted to humans.

The report initiated a media frenzy which crippled the British beef industry and sparked questions on the safety of the food supply throughout the world. This has escalated to become "the biggest crisis the European Union had ever had", according to Mr Franz Fischler, European agriculture commissioner.

However, few challenged the veracity of the claims or the quality of evidence. While the UK government tried to calm food-related fears, the EU banned British beef products. Policy focused on doing "something" – rather than doing the "right thing".

The saga highlights the difficulty of accurately communicating and disseminating health information. Even after years of public discussion on BSE and Creutzfeldt-Jakob disease (CJD), a similar disease in humans, misinformation continues to dominate the discourse. The power of the rhetorical repetition of BSE as simply "mad cow disease" permeates the public, fostering an erroneous conclusion that humans will get "it" from eating meat from cows or sheep and lambs.

Different groups shirk responsibility. The medical community calls mad cow disease a veterinary issue. The veterinarians say it is a government and public health issue. The government, having no clear communication strategy, acknowledges it as a scientific dilemma and blames the media. The media is keen to report it while the political and medical reporters vie to write the lead story. All this makes good copy.

Meanwhile, UK and Swiss farmers watch as their herds are prematurely culled and demand for beef diminishes. And French cattle farmers block roads and march their "healthy" cattle around the Eiffel Tower to protest against falling beef prices.

Today there are fewer "mad cows" than when the UK government's report was released, but the same mystery shrouds the unaccountable human deaths. Europeans are consuming one-third less beef, while the verifiable facts suggest that only cows die of mad cow disease.

> What gets lost is the public's right to know the facts before accepting the fallacious claims that grab attention but fail to meet the rest of sound logic

There has yet to be a single documented case of CJD from eating beef, lamb or related dairy products. Similarly, prions – the theorised infectious agent in cattle – has never been identified in any meat for human consumption.

Nonetheless, in an effort to ease concern that the same thing could happen in the US, the Centers for Disease Control and Prevention issued a statement earlier this year which was heralded in a lead story in the New York Times. It read: "There is no evidence that anyone in the US has died of the 'mad cow' disease that has killed eight people in Britain, the Centers for Disease Control and Prevention said today."

A similar statement could be made anywhere in the world, given its inaccurate implication of causation. The only proven victims of mad cow disease are the cattle it infects, as the pejorative name suggests.

Unfortunately, discovery of information, specifically scientific and medical breakthroughs, does not occur overnight in a way that fits neatly into succinct stories or the soundbites preferred by the popular media. Although there has been a fourfold increase in medically related news in the New York Times during the past two decades, we are all limited on where to find the best and most accurate information.

The 25,000 scientific and medical journals which are published throughout the world do not inform us, nor do our healthcare providers; we still get about 85 per cent of our health informati[on] from non-medical sources.

As we rely on gover[n]ments to provide accura[te] health information, the re[al]ity is that we have a kno[w]ledge deficit. Instead, tablo[ids], television, talkshows a[nd] other forms of "infotai[n]ment" fill the knowled[ge] gap. What gets lost is t[he] public's right to know t[he] facts before accepting t[he] fallacious claims that gr[ab] attention but fail to meet t[he] test of sound logic. T[he] result is an absence of publ[ic] confidence.

Few would argue with t[he] proposition that accura[te] information presented o[bjec]tively and ethically [is] needed to make the be[st] decisions in health and oth[er] vital areas of life. Advoc[a]ting such an approach unit[es] all of us dedicated to the a[rt] of effective health commun[i]cation.

But without clear leade[r]ship from the governmen[t] there is no alternative but [to] look to the media and a[ll] those who are involved [in] the discovery and dissemin[a]tion of health-related info[r]mation to make this a rea[li]ty. They must rise to t[he] task and serve as an ethic[al] compass in helping the pu[b]lic to digest such material a[s] part of its daily diet.

If neither the governme[nt] nor the media begin to thi[nk] of the consequences of t[he] laisser faire approach [to] communicating health, [a] similar disaster lurks on [the] horizon.

The author is editor-in-chi[ef] of the Journal of Health Com[]munication and director o[f] the Center for Ethics in Poli[ti]cal and Health Communica[]tion at Emerson College, Bos[]ton

FINANCIAL TIMES

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A maritime law becalmed

There can be few instruments of international law which have so much potential to do either good or harm as the United Nations Convention on the Law of the Sea, which a newly established court based in Hamburg is supposed to interpret.

If the best intentions of its drafters are fulfilled, the convention will uphold freedom of navigation, promote conservation, and facilitate rational international co-operation in the management and use of maritime resources. In an ideal world, coastal states would see the 200-mile economic zone, to which they are entitled by the treaty, as an area of responsibility where they must control pollution and exercise restraint in mining and fishing, rather than as an opportunity for quick profit.

Moreover, given that claims to economic zones are doomed by geography and geology to overlap, the court inaugurated in Hamburg last week would seem an ideal forum in which to settle disputes. Governments constrained by powerful nationalist constituencies at home ought to find it easier to defer to a universally respected tribunal on matters of maritime rights than to make unilateral concessions.

In practice, however, the treaty seems to be having the very opposite of a benign effect in many parts of the world, from the Aegean to the Pacific. Because the possession of islands has become a crucial factor in determining the extent of a country's fishing and seabed mining rights, bitter international disputes are flaring over the ownership of obscure mid-ocean outcrops which would otherwise be of little interest.

The two most dangerous disputes concern the potentially oil-rich Spratly islands, claimed by six countries, and the islets in the east China sea where the activities of Japanese nationalists have triggered a wave of anti-Tokyo sentiment in Taiwan and Hong Kong as well as China.

These conflicting claims to little-known archipelagos are, in turn, one of the factors behind the naval arms race in which virtually all Asia-Pacific countries are engaged. As coastal states with booming economies, they are suddenly entitled to defend the freedom of navigation in which all trading nations have a vital interest.

But if the emerging Pacific powers are acquiring large fleets to fight for, and fence off parts of the ocean, that is a counter-productive enterprise whose human and economic costs will far outweigh any benefits. It would also be entirely foreign to the spirit, if not the letter, of the UN Convention on the Law of the Sea.

Equity cultures

When the British government was preparing in 1984 for the initial sale of shares in British Telecommunications, nobody knew how many first-time private investors would buy. But the government's advisers could at least take comfort from the fact that the culture of the British capital markets was heavily biased towards equities. Germans, in contrast, prefer bonds. Could the enthusiasm shown by private investors for the forthcoming Deutsche Telekom issue herald a change of habit?

Quite possibly, because there is more going for equities in Germany than just the privatisation programme. Deutsche Bank's recent decision to set up an independently funded pension scheme points in the direction of an increased institutional appetite for ordinary shares. With a rapidly ageing population, Germany can no longer afford its very generous social security system, and others are likely to follow the Deutsche Bank example.

Yet a change in the method of financing cannot, in itself, make a huge difference to the size of the pensions bill. The advantage in funding lies more in its ability to legitimise the division of resources between workers and pensioners.

The development of an equity culture ultimately depends, though, on the relative performance of bonds and equities, and to a lesser extent on tax and regulation. If German insurers more than halved their holdings of equities between 1970 and the mid-1980s, it was because bonds outperformed as the Bundesbank established its credibility in the markets.

If monetary union brings higher rates of inflation, that trend will reverse. A change in the tax reliefs that favour the book reserve system against funded pensions might also tilt the balance a bit. Yet the present attraction of Deutsche Telekom shares for private investors lies largely in a yield that looks good against bonds. Unless they are worried about inflation, a rising share price and falling yield may simply lead to profit taking and more bond buying.

Budget blues

It might be called the Dorneywood twostep. One forward, one back, turn around, face your partner. Then say: "No Ken, we just can't do it."

The pre-Budget get-together of Treasury ministers and officials this weekend at the official country residence of Mr Kenneth Clarke, the UK chancellor, can hardly have gone with a swing.

It is easy to see why public expenditure should go up, even if an election were not in prospect. The case for a modest rise, for example, in the health service is hard to resist. And the squeeze on public-sector investment since 1993 is beginning to tell. Private Finance Initiatives which the government hoped would shovel £14bn into the investment gap this year, have so far provided only half that.

The government is facing public pressure for improved services, which reflects quite reasonable aspirations. As national income expands, people may well want to spend an increased proportion of the country's income on teachers and doctors. Health spending, for example, is still a relatively modest 5.6 per cent of national income compared to 4.6 per cent in 1979. This is low by the standards of other advanced economies.

But flip the chart and you see quite another picture. Total government spending this year is likely to be some £27bn more than revenues. This deficit, at 3¾ per cent of national income, will be more than the entire defence budget.

From every perspective the deficit is too high. The UK is well into a recovery phase, with unemployment falling, perhaps close to a level at which inflationary pressures will revive. Conservatives and the Labour party agree that over the full economic cycle borrowing should be brought down. The so-called "golden rule" – that government borrowing should not exceed public investment – would suggest a deficit of no more than 1 per cent of national income.

Raising taxes is off the agenda, at least until after the election, so the burden of an urgently needed adjustment is falls on spending programmes.

But since health, education and welfare payments now account for 66 per cent of government expenditure, the scope for making significant cuts is limited, especially as many of the obvious economies have been made in the past three years. Rightwingers may dream of taking a machete to the social security budget, but the political arithmetic is fearsome. Each 1 per cent cut in the welfare budget represents a £1,000 drop in living standards for 1m people.

So if those at Dorneywood were disposed to raise their glasses to another term of Tory government, it will not be one in which public expenditure falls much below the present level of about 43 per cent of national income. Radical thought would be required to curb the growth of welfare payments or pay for more services out of income rather than taxes.

For the present, Mr Clarke can only hope the deficit will go away as output rises. However, the effect of economic growth on government revenues is unlikely be enough to balance the books until the turn of the millennium. So he must at least hold the line on spending. And he must absolutely refuse to lead the nation in a tax cutting-dance, for the music will stop as soon as the votes are counted.

A deficit of credibility

Stephanie Flanders casts doubt on the efforts of Italy, Spain and Portugal to be ready for the single European currency in 1999

International intrigue, wounded pride and accusations of financial skulduggery at the highest levels of government: in the past six weeks the race to European economic and monetary union (Emu) has become a highly charged political drama.

France and Germany's struggles to make it to Emu on time have filled the headlines for some time. The new twist to the story has revolved around events further south, among the so-called "Club Med" countries. Although Italy, Spain and Portugal have always said they planned to qualify for Emu, few analysts ever considered them likely candidates for the first round, due to start in January 1999.

Mr Romano Prodi, Italian prime minister, last month made an effort to be taken more seriously. He presented a budget for 1997 tailor-made to meet the Maastricht treaty criterion that requires countries to keep general government borrowing below 3 per cent of gross domestic product. Spain and Portugal have since announced Emu-inspired budgets of their own.

No sooner had they outlined their plans than officials in the "hard-core" countries – those thought most likely to be first into the single currency – began muttering about southern members getting above themselves. Mr Jacques Chirac, French president, expressed doubts about Italy becoming a founder member of Emu. In Germany, Mr Hans Tietmeyer, the Bundesbank president, warned against countries meeting the criteria "in a breathless short-term effort" that could not be sustained.

Financial markets seemed more impressed. Italian long-term bond yields now stand only 2½ percentage points or so above German ones, nearly 1 point lower than at the start of last month. This implies a sharp fall in investor perceptions of the risk attached to lira assets. The premium on Spanish and Portuguese bonds has narrowed by roughly the same amount, to about 1½ percentage points.

But even if the ambitious new targets are met, it may be tricky for the Mediterranean countries to persuade their northern colleagues that the improvement will last.

Italy has the hardest task: the state budget deficit is expected to be close to L130,000bn (£54.18bn) – or 7 per cent of GDP – this year. Mr Prodi's budget promised to reduce state borrowing by L62,500bn next year to meet the Maastricht target.

The headline figure was an impressive step up from the L32,500bn tightening the government had forecast in July. But only 60 per cent of the reduction will be part of the 1997 budget law to be passed by parliament over the next few months. This comprises about L25,000bn in spending cuts and L12,500bn in measures to raise revenues.

The remaining L25,000bn, made up of one-off measures devised to meet the Maastricht criteria, will probably materialise only early next year. They include a L12,000bn "Euro-tax" on personal incomes and L13,000bn of "treasury operations".

Mr Prodi himself has accepted that the latter are pure "window-dressing" for the purposes of the Maastricht entrance exam. As for the Euro-tax, it may it be a hard task to raise the equivalent of 6 per cent of this year's personal income tax revenue from it.

Mr Prodi is hoping to get additional help from reduced debt servicing costs and faster-than-expected economic growth. Unusually, the budget does not allow for a continued decline in short-term interest rates; Italy's very high stock of debt – forecast to be about 123 per cent of GDP next year – means that a 1 percentage point fall in the interest rate on government debt should reduce borrowing by nearly 1 per cent of GDP within two years.

Betting on faster growth, however, seems over-optimistic. Mr Giorgio Radaelli, senior economist at Lehman Brothers in London, thinks the extra deficit cuts could make it hard for Italy to meet the government's 2 per cent growth forecast for 1997, let alone exceed it.

"The government is promising nearly double the amount of fiscal tightening as in the July budget plans at the same time as saying that growth will be the same as it previously expected," he says. "You cannot have it both ways: either the cuts will be achieved, and the growth will be slower, or investors won't believe the cuts are credible."

Spain's economic forecasts have also been criticised. The draft 1997 budget aims to reduce the general government deficit to the magic 3 per cent of GDP (from a forecast 4.4 per cent this year) through faster growth and Pta1,200bn (£6,153m) in budget savings.

Spending cuts make up two-thirds of the package, centred around a freeze on public-sector wages and employment and cuts in subsidies to industry. Although there are questions over the government's ability to implement fully the measures, most have judged the package more credible than Italy's, if only because Spain is closer to the Maastricht target.

Whether the package proves adequate will depend on what the deficit turns out to be this year and on the pace of economic growth in 1997. The government's forecast of 3 per cent growth next year, up from a forecast 2.3 per cent this year, compares with an average independent forecast of 2.8 per cent.

Portugal likes to think of itself as the dark horse of the Emu race. Extensive budget cuts in recent years have left the government forecasting a deficit of 4 per cent of GDP this year.

Last week the government began discussing how to achieve the further cuts needed to reach its 2.9 per cent target. While the Portuguese seem to have avoided blatant window-dressing, the cuts have fallen more on areas that are easiest to squeeze in the short term, such as infrastructure, than on long-term problem areas such as social security.

Such shortcomings are hardly in the same league as the creative accounting of France, Italy and others in their new budgets. But they are likely to be seen as a symptom of the same, short-termist approach to Emu entry by the officials in Brussels and at the European Monetary Institute in Frankfurt who will evaluate progress towards meeting the Maastricht targets.

The greatest obstacle faced by the three Mediterranean countries in qualifying for entry is demonstrating that next year's budget cuts, however large they turn out to be, are more than one-year wonders.

For Italy, Mr Riccardo Barbieri, an economist at Morgan Stanley in London, reckons that significantly less than half of the forecast L62,000bn reduction is structural: without another round of cuts, the deficit will go up again after next year.

The package includes only a little over L7,000bn in cuts in health and social security. Yet it is widely accepted that budget reforms in these sectors will be crucial to cracking the Italian budget problem in the long term.

As for next year's Spanish budget deficit, roughly two-thirds of the expected decline is structural, according to economists at Salomon Brothers in London. Other, one-off, measures for 1997, such as re-jigging the collection of corporation tax, could simply shift the budget burden into the future, raising the deficit by an additional half a per cent of GDP in later years.

Both Spain and Portugal have relied heavily on reduced subsidies to state companies to deliver their 1997 forecasts. Unless the cuts are combined with concerted efforts to boost efficiency, this will just shift state enterprise losses "off-budget" – and, possibly, outside the general government deficit on which the Maastricht treaty focuses.

These and other worries about long-term sustainability are likely to feature in discussions at the European Monetary Institute as it prepares to report on efforts to meet the convergence criteria. The preliminary findings, due next month, will be the first official assessment of EU members' progress toward Emu since the new budgets for 1997 were announced. Mr Tietmeyer's comments suggest the authors will be under pressure from Germany and other "hard-core" stalwarts to be unsparing in their assessments.

For their part Spain and Portugal will want the institute to judge them by their economic progress, not their location. Both fear being placed in the same "problem" category as Italy, despite their lower debt and public borrowing. Mr José María Aznar, the Spanish prime minister, went to Bonn last week to make this point in person. He was immediately followed by Mr Prodi, equally keen to dispel doubts that Italy could deliver.

In promoting their cases, all three can show that the latest budgets follow several years of efforts to cut government borrowing and improve economic policy generally. Much of the recent decline in their government bond yields may be more a belated recognition of this progress than a bet on them entering the single currency in 1999.

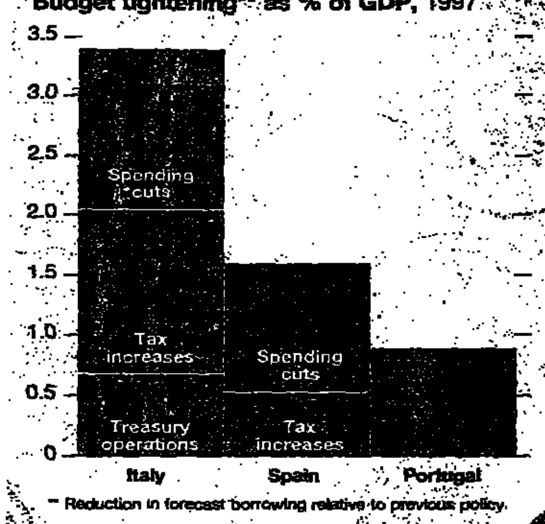
On present reckoning, the Club Med offensive will not be enough to secure them a place in Emu in 1999. But it has made it harder to count them out over the long term.

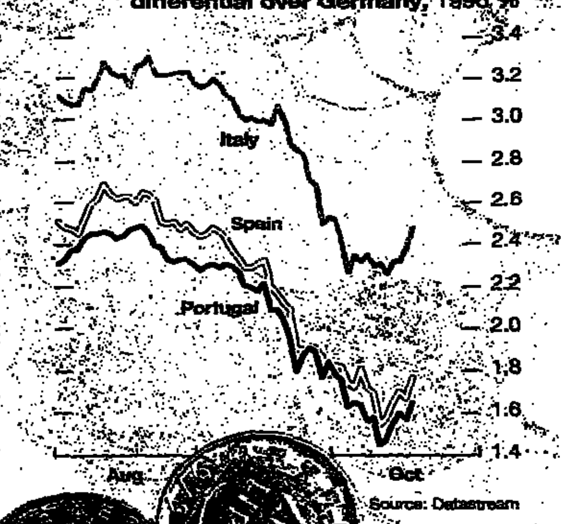
Additional reporting by Peter Wise, Robert Graham and Lionel Barber

Emu and the Med: the race for acceptable numbers

	Forecast real GDP growth, 1997			General government borrowing as % of GDP, 1997		
	Market forecast (Aug)	Latest official forecast	Market forecast (Oct)	Market forecast (Summer)	Government target	Market forecast (mid-Oct)
Italy	1.9%	2.0%	1.7%	5.8%	3.0%	4.5%
Spain	2.8%	3.0%	2.8%	4.0%	2.9%	3.6%
Portugal	2.7%	2.7%	2.7%	3.3%*	3.0%	3.1%*

Growth forecasts are average of European economists polled by Consensus Economics. Deficit forecasts are average of 8 leading London-based forecasters, except* Salomon Brothers, London





· OBSERVER ·

Reds are not yet dead

■ Whoever said that socialism was dead? Even as free-marketeers proclaim the final demise of the collectivist project, the Socialist International – a loose and diverse bunch of left-of-centre movements – goes from strength to strength.

At a recent conference in New York, hardly the incubator for things socialist, the number of full members swelled from 64 to 80; the ranks of parties enjoying observer or consultative status increased by 27.

Admittedly, not all members of this revolutionary brotherhood paint themselves a very deep shade of red. The newly elevated full members, who include the Nicaraguan Sandinistas and the all-important Social Democratic party of Mongolia, will be taking their places alongside such stalwarts of mild reformism as the German Social Democrats, the New Zealand Labour party and Britain's Labour party.

The very latest to be admitted as associates of the pinkish-red fraternity is the Citizens' Union of Georgia.

Two members of that troubled country's ruling party last week brought a message of fraternal greetings to the organisation's London headquarters from president Eduard Shevardnadze. The niceties of stakeholding and empowerment might seem rather academic in a country recently ravaged by civil war. But officers at the International were impressed by the enthusiasm and extreme youth of the envoys.

Like most of their party's parliamentarians, they were in their mid-20s. "Shevardnadze prefers to work with young people because we have less to unlearn," said revolutionary envoy Irakli Gogava.

Golden oldie

■ Switzerland has a 22-carat dilemma. It urgently needs to find someone willing to chair its investigation into the hunt for all that looted Nazi gold still hidden in the country. The job is a delicate one; done properly, it could help Switzerland refurbish its battered international reputation, but done badly and it will increase the country's isolation.

There are several serious Swiss historians, such as Jakob Tanner and Georg Kreis, who are experts on this murky period in Switzerland's past. But they may be ruled out on the grounds fresh minds need to be brought to the subject.

Beatrix Mesmer, a history professor at Berne, has also been mentioned. She has the advantage of being Jewish and she's recently retired, suggesting she could find the time for an investigation which might take five years.

But some Swiss believe the job's too important to be left entirely to their compatriots. The argument goes that if Swiss bankers can persuade Mr Paul Volcker, former US federal reserve chairman, to help sort out their row with Jewish organisations over the fate of dormant bank accounts, surely the Swiss government can find a foreign dignitary willing to lend a hand.

One name mischievously touted is Baroness Thatcher. She's always been a big fan of Switzerland. And she wouldn't put up with any nonsense from people like Alfonse D'Amato, the chairman of the US senate banking committee who's been making life such a misery for the Swiss.

Bruised fruit

■ Life can be tough for Caribbean banana producers. If it's not leaf fungus, hurricanes or European insistence on the right length, colour and curvature, it's US politics.

The problem is an attempt to allow bananas grown in Latin America by American interests to muscle in on a European market traditionally carved up among former European colonies.

Unfortunately for the Caribbean growers, the US company Chiquita – along with Carl Lindner, the Cincinnati millionaire behind it – have friends in high places. Chiquita, the world's largest banana trader, has hedged its bets and financed both Democrats and Republicans ahead of the US election. Dole and his campaigners have used the Lindner family's private planes so much that he's been dubbed the "banana republican".

The US of course, like the European Union, only believes in free trade up to a point: "We tried a few years ago to export bananas to the US and our containers sat on the wharf," says Marshall Hall, chief executive of Kingston-based Jamaica Producers Group. "The bananas turned to vinegar."

So Jamaica Producers is diversifying into less controversial products such as mangoes and pumpkins. But, even for pumpkins, access to the US market is curiously unpredictable. "I can tell you to the month when they're going to find 'weevils' in my pumpkins," says an increasingly cynical Hall. Strangely enough, that just happens to be the month the US pumpkin harvest gets under way.

The Financial Times

100 years ago

Chinese observations
Li Hung Chang has now arrived at Pekin, after his tour amongst the Barbarians, and by this time will doubtless be communicating to his Imperial master the result of his observations in the West. We await with interest to hear whether he is to be decorated with more peacocks' feathers or is to be decapitated. It all depends on how much he tells the Emperor. We know that throughout his European trip he carefully collected particulars of the ages and incomes of everybody he met, from Mr. Gladstone down to the senior attendant at the Empire, and if he confine his recital to such points as these, he will almost certainly get the peacocks' feathers. But if he presume to explain that he has discovered that the "white man with the yellow money" is more advanced in civilisation than the "yellow man with the white money", then the betting is, we are afraid, against his head. We imagine however that Li Hung Chang is sufficiently shrewd to impress the Emperor with the fact that although the Barbarians are a contemptible race as compared with the Celestials, they are useful as hirelings for the manufacture of war-ships, armaments and factories. And, after all, that is the main point.

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Germanophobia rules in a day by the seaside

Robert Peston finds little to comfort the EU at the first Referendum party conference

Anyone attending the first annual conference last Saturday of Britain's Referendum party could have been forgiven for mistaking the whirr of the air conditioning for the hum of Messerschmitts crossing the English Channel.

Germanophobia was everywhere: in the speeches, in the video shown on two giant screens and in the casual conversations of the glitterati attending pre-conference soirées and dinner parties.

The Referendum party, which was created a year ago by the billionaire businessman Sir James Goldsmith, is not overtly anti-German. It is not even officially opposed to the European Union. Its ostensible purpose is to pressure the British government to hold a referendum on Britain's relationship with the EU.

But there was Sir Alan Walters, the former economic adviser to Baroness Thatcher, railing against the German central bank. Then came Sir James's zoo-keeping millionaire friend, Mr John Aspinall, who declaimed from the triumphalist stage that "in this century, a million Englishmen have given up their lives so that we should remain free, free from a German-dominated Europe".

More sophisticated was the closing address by Sir James, the party's founder, who attacked German ambitions to create what he called a federal European superstate. In an analysis which owed much to continental thinking – probably reflecting his own German-Jewish descent and Anglo-French dual nationality – Sir James cited the German philosopher Hegel, who "believed in the state and despised the people".

Hegelian influence had led to the EU being dominated by bureaucrats who were leading its member countries "blindfold into a federal superstate", Sir James said.

Meanwhile, a video played in the gaps between the speeches, showing images of German chancellor Helmut Kohl, looking like a kind of mafia kingpin, with quotations superimposed from European ministers designed to demonstrate his supranational ambitions. There were even pictures of tanks rolling through unspecified streets.

Standing ovation: Sir James Goldsmith acknowledges the applause at the end of his closing address

Speaker after speaker received a standing ovation from the 4,000 members and sympathisers who packed into the conference centre. For all Sir James's avowed intention that his party's members should include pro- and anti-Europeans, there was no doubt that the vast majority of his supporters were Eurosceptics.

There were small businessmen damaged by the last recession, which they blamed on sterling's membership of the European exchange rate mechanism. There were fishermen facing hardship which they blamed on the common fisheries policy. Most were white, over 50 and former Conservative voters.

At the end of the seaside rally, Sir James's motivations and ultimate aim still remained unclear. At a dinner organised by Lady Powell, the wife of Sir Charles Powell, the former foreign affairs adviser to Baroness Thatcher, Sir James talked about "the tumour of Brussels control", media distortion which "makes you puke" and hypocritical Tory ministers and MPs.

He did not yet have a wording for the referendum he wants, although he was currently in favour of "a very simple question: for and against Maastricht". Success would be measured by whether he got "one or two" representatives elected, which "would be amazing", but which he was beginning to think possible.

Vienna shares row prompts exchange rule move

By Eric Frey in Vienna

The Vienna Stock Exchange has announced changes in trading rules in the wake of the resignation of the head of securities trading at Investmentbank Austria, a subsidiary of Bank Austria.

Mr Anton Imre resigned following allegations that his department manipulated equity prices to secure a profit on a large options deal.

The exchange, one of Europe's smallest, said the rule changes should prevent such practices – which are not illegal – in future.

The affair has angered institutional investors and cast doubts over the Vienna exchange's ability to shed its image as a closed club with rules favouring a few local banks. Bank Austria, the country's largest bank, denied any wrongdoing but called its traders' action "extremely short-sighted and damaging".

Mr Imre stepped down on Friday after allegations in the market and the media that his bank had sold thousands of blue-chip shares just before the close on Wednesday. In seconds, the ATX index of shares lost 17 points, or 1.5 per cent, falling to 1,073.54.

Brokers said Investmentbank Austria had earlier sold to Girocredit, another bank, 30,000 call options – exercisable when the ATX index closed above 1,080. In late trading Wednesday, Girocredit, in which Bank Austria has an indirect majority stake, apparently put in large buying orders for shares in VA Tech, OMV and EA-Generale to drive the ATX up. When the index hit 1,090, Investmentbank Austria struck back with even larger sell orders and drove the index down. Because of the closing bell, other investors had no chance to act on the last prices.

The alleged manipulations were possible because the stock exchange's new electronic trading system EQQS overreacts when a succession of large orders is placed.

The exchange said it would start using a weighted average to calculate the price of blue chips and the ATX, to avoid massive price swings in thin trading. It would also raise the minimum number of shares for which market-makers have to set a firm price. In the longer term, EQQS software should also be improved.

The uproar is an embarrassment for Bank Austria chairman Mr Gerhard Randa, who is also president of the stock exchange. He dismissed criticism of his double role, citing Frankfurt, where Deutsche Bank board member Mr Rolf Breuer is also exchange head.

THE LEX COLUMN

Deutsche's debt dilemma

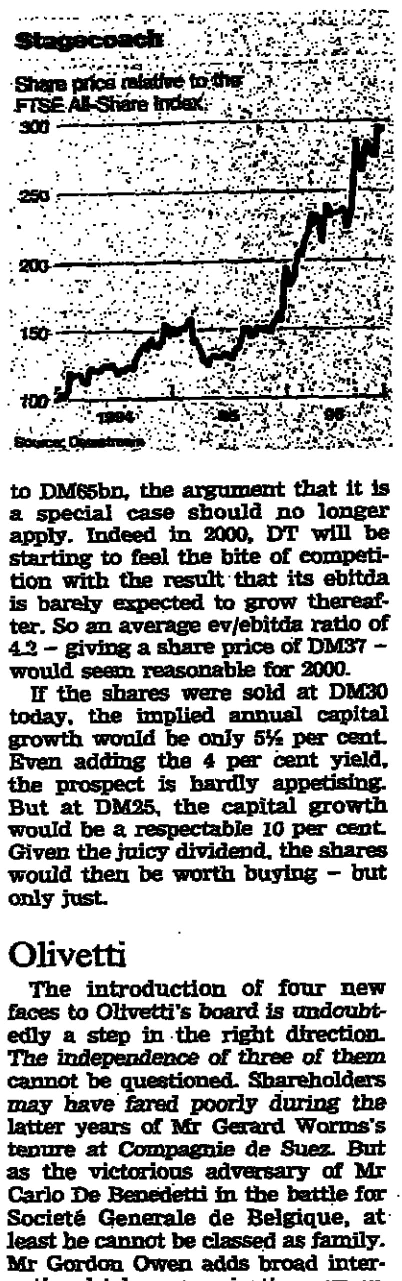
As Deutsche Telekom's roadshow kicks off this week, investors will want to know how serious the company is about paying down its debts. Privately, executives say cutting borrowings, which amounted to a net DM106bn at the end of last year, is their over-riding priority. But the prospectus is not nearly as clear. Reading it, one might conclude DT's first objective was to "increase its international presence". Prospective shareholders will not be reassured by the notion that billions more will be spent on foreign adventures. So Mr Ron Sommer, the company's chief executive, would do well to state publicly that this is not what he has in mind.

He should also clarify exactly what DT's target of cutting debt to DM65bn by the end of 2000 means. For example, would the proceeds from a second share issue, expected in 1999, be counted towards this target? Privately, executives are categorical that they would not. But the prospectus, again, is fuzzy. Furthermore, DT should stop talking about gross debt, which is pretty meaningless, and focus on net debt. It boasts that gross debt fell DM15bn last year. But this is less impressive when one realises that cash resources also fell by DM8bn, with the result that net debt was down only DM7bn. DT also does not include DM6bn of pension obligations in its calculation of debt.

That said, DT's cash flow is so strong that a net debt target of DM65bn (including pension obligations) by 2000 should be achievable. The question then becomes how DT should be valued. German investors will look at its fat dividend. If the shares were sold at DM30 – the top of the price range to be revealed today – the net yield would be 4 per cent. Given that Germans can cash in a tax credit, the gross yield would be an attractive 5.7 per cent.

International investors, though, will be inclined to look at DT's earnings before interest, tax, depreciation and amortisation (ebitda). European telecoms operators, on average, have an enterprise value (market capitalisation plus debt) of 4.2 times 1996 ebitda. At DM30 a share, DT's ev/ebitda ratio would be a pricey 5.5. Even at DM25, the bottom of the price range, the ratio would be 5.1.

DT's advisers argue that normal ebitda multiples are inappropriate given the company's capacity to pay down its high debts. Maybe. But what if one flashes forward to 2000? With DT's net debt then down to DM65bn, the argument that it is a special case should no longer apply. Indeed in 2000, DT will be starting to feel the bite of competition with the result that its ebitda is barely expected to grow thereafter. So an average ev/ebitda ratio of 4.2 – giving a share price of DM37 – would seem reasonable for 2000.



If the shares were sold at DM30 today, the implied annual capital growth would be only 5¼ per cent. Even adding the 4 per cent yield, the prospect is hardly appetising. But at DM25, the capital growth would be a respectable 10 per cent. Given the juicy dividend, the shares would then be worth buying – but only just.

Olivetti

The introduction of four new faces to Olivetti's board is undoubtedly a step in the right direction. The independence of three of them cannot be questioned. Shareholders may have fared poorly during the latter years of Mr Gerard Worms's tenure at Compagnie de Suez. But as the victorious adversary of Mr Carlo De Benedetti in the battle for Société Generale de Belgique, at least he cannot be classed as family. Mr Gordon Owen adds broad international telecommunications expertise, while Mr Dario Trevisan is the choice of international shareholders. This should ease fears over the influence of Mr De Benedetti's following his recent resignation. Mr De Benedetti owns less than 3 per cent of Olivetti, but controls 14 per cent of its shares, raising valid concerns that his personal interests are not wholly aligned with other shareholders.

Having reinvigorated the board, new chief executive Mr Roberto Colaninno needs to improve transparency. Olivetti's accounts have left investors in the dark. Delayed payment of suppliers, for example, gave an unusually benign picture of Olivetti's debt position at the half year. Investors deserve better.

Transparency would be a mixed blessing, but at least it would put management under pressure to take the tough strategic decisions that are necessary. Olivetti can only fund its investment in telecoms network Infostrada, if it makes significant disposals elsewhere. Current plans for only partial flotation of Lexikon and retention of the disastrous services and systems division look like a recipe for more shareholder pain in the form of another recapitalisation.

Stagecoach

Helped by Friday's apparent approval by the UK government of the Porterbrook rail leasing deal, the share price of Stagecoach, the rail and bus lines group, continues its seemingly endless rise. Shareholders should hang on, the argument usually runs, because the price is underpinned by formidable earnings growth. After all, the shares are trading at a slight discount to the market price/earnings multiple for, say, 1997/98.

In fact, investors should beware of this comforting theory – because Stagecoach's price/earnings multiples are now dangerously flattering. For a start, a big chunk of earnings growth comes from South West Trains, a franchise which ends in 2003 and should therefore be stripped out and treated differently. So should Porterbrook, a rolling stock leasing company whose profitability once existing leases come to an end between 2002 and 2004 is anyone's guess.

To isolate these effects precisely is tricky because it is difficult to pin a long-term value on Porterbrook. But it and SWT both have a strong "jam today" effect and deserve low multiples; this implies that the rest of Stagecoach is trading at a price/earnings premium to the market, even for 1997/98. Yet the rump is mainly composed of mature bus businesses with dull growth prospects. For them, such a rating looks implausibly racy.

Of course, there is a case for hanging on to the shares regardless. Stagecoach has a remarkable ability to pull imaginative rabbits out of hats. But investors should be taking this pricy gamble with their eyes open, now that the shares look fundamentally over-valued.

Gains by the LDP

Continued from Page 1

the Democratic party, a newly formed group which emerged from yesterday's poll as Japan's third-largest.

"Our stance is that we would welcome anybody or any party that will agree with our policies," Mr Hashimoto said.

The turnout appeared to reflect voters' weariness with the years of muddled coalitions that followed the LDP's loss of its monopoly of power in 1993 with the previous lowest turnout, 67 per cent.

Deutsche Telekom shares to be in DM25-30 range

Continued from Page 1

European banks. Deutsche Bank, Dresdner Bank and Goldman Sachs met throughout the weekend in Frankfurt to hammer out a price range for the IPO, one of the world's largest ever, before finally agreeing at lunchtime yesterday.

It is clear that Deutsche Telekom was looking for a price of around DM30 per share, but having apparently set a range of DM25-DM30, it is admitting that the new capital that it will raise will probably be less than hoped. "With a range of DM25-DM30 it's unlikely that it's going to be DM30 unless demand is exceptionally price insensitive or large," one banker close to the issue said.

The company may be able to recover some of the possible shortfall by resorting to the so-called greenshoe, an additional packet of 75m new shares which may be issued to stabilise Deutsche Telekom's share price in the weeks after the stock market listing.

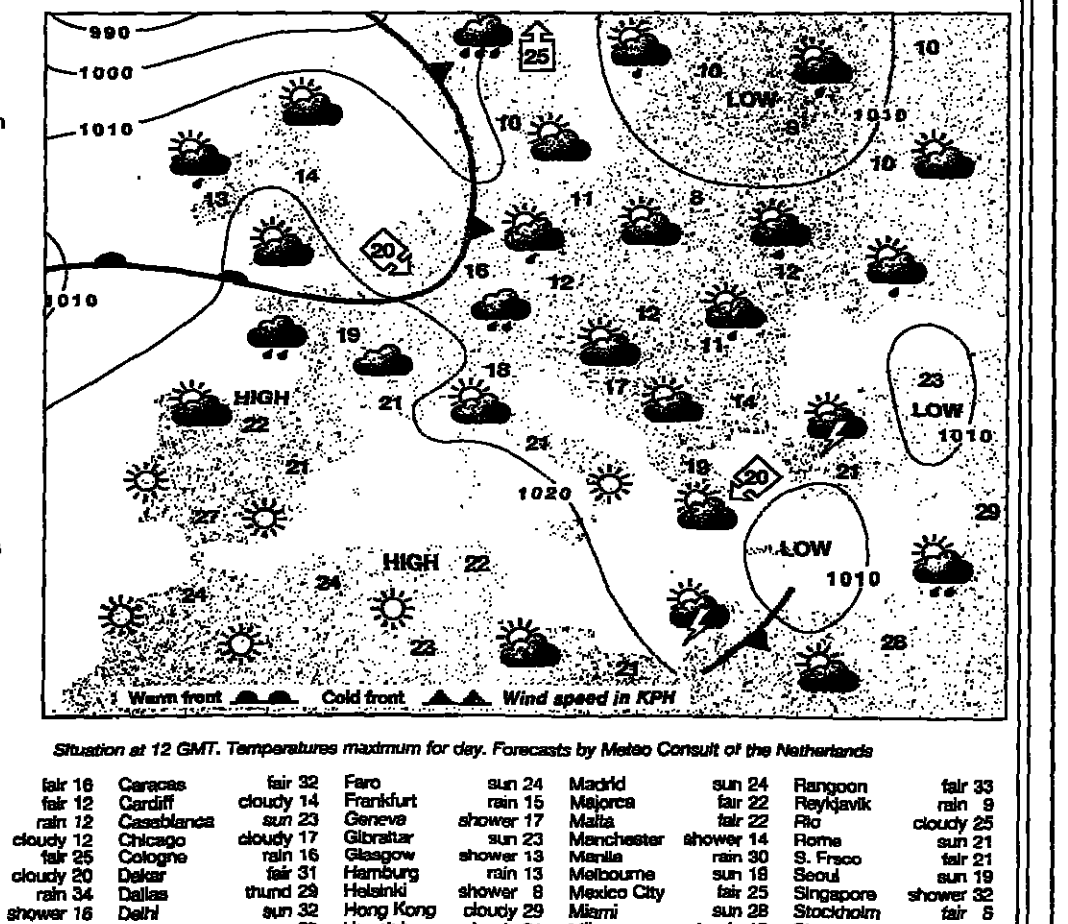
FT WEATHER GUIDE

Europe today

South-western Scandinavia, Germany and north-western France will have cloud and rain. In the wake of this rain, bright intervals are expected over the UK and the Benelux. Several low pressure systems in eastern Europe will cause showers from Belarus across the Ukraine and into the eastern Mediterranean. Turkey will have a few thunder storms. High pressure will result in widespread sunny spells over the Iberian peninsula and the western Mediterranean. The Balkans and parts of eastern Europe will have bright intervals.

Five-day forecast

Cloud and bright intervals will be experienced in most of western Europe as a southerly flow moves moist and mild air into the region. At mid-week, a more westerly flow will bring rain to the British Isles and the western part of the continent.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 16	Caracas	fair 32	Faro	sun 24	Madrid	sun 24	Rangoon	fair 33
	Celsius	Belfast	fair 12	Cardiff	cloudy 14	Frankfurt	rain 15	Majorca	fair 22	Reykjavik	rain 9
Abu Dhabi	sun 33	Belgrade	rain 12	Casablanca	sun 23	Geneva	shower 17	Malta	fair 22	Rio	cloudy 25
Accra	fair 30	Berlin	cloudy 12	Chicago	cloudy 17	Gibraltar	sun 23	Manchester	shower 14	Rome	sun 21
Algiers	sun 24	Bermuda	fair 25	Cologne	rain 16	Glasgow	shower 13	Manila	rain 30	S. Frsco	fair 21
Amsterdam	shower 16	Bogota	cloudy 20	Dakar	fair 31	Hamburg	rain 13	Melbourne	sun 19	Seoul	sun 19
Athens	shower 20	Bombay	rain 34	Dallas	thund 29	Helsinki	shower 8	Mexico City	fair 25	Singapore	shower 32
Atlanta	sun 25	Brussels	shower 16	Delhi	sun 32	Hong Kong	cloudy 29	Miami	sun 28	Stockholm	fair 8
B. Aires	cloudy 18	Budapest	rain 11	Dubai	sun 33	Honolulu	cloudy 31	Milan	cloudy 18	Strasbourg	rain 15
B.ham	fair 15	C.hagen	rain 11	Dublin	fair 13	Istanbul	shower 16	Montreal	rain 11	Sydney	fair 20
Bangkok	rain 34	Cairo	sun 28	Dubrovnik	fair 17	Jakarta	shower 32	Moscow	rain 9	Tangier	sun 25
Barcelona	sun 22	Cape Town	fair 16	Edinburgh	fair 13	Jersey	rain 15	Munich	rain 13	Tel Aviv	sun 30
						Karachi	sun 32	Nairobi	fair 27	Tokyo	fair 19
						Kuwait	sun 32	Naples	fair 20	Toronto	cloudy 14
						L. Angeles	sun 24	Nassau	fair 29	Vancouver	rain 12
						Las Palmas	sun 27	New York	rain 13	Venice	cloudy 17
						Lima	fair 21	Nice	sun 19	Vienna	rain 12
						Lisbon	sun 25	Nicosia	fair 31	Warsaw	cloudy 8
						London	sun 17	Oslo	cloudy 7	Washington	fair 18
						Lux.bourg	rain 14	Paris	rain 18	Wellington	fair 15
						Lyon	cloudy 19	Perth	shower 24	Winnipeg	sleet 4
						Madeira	sun 25	Prague	rain 11	Zurich	rain 13